Meeting No. 984

THE MINUTES OF THE BOARD OF REGENTS

OF

THE UNIVERSITY OF TEXAS SYSTEM

Pages 1 - 67

September 28, 2004

Austin, Texas

MEETING NO. 984

TUESDAY, September 28, 2004.--The members of the Board of Regents of The University of Texas System convened this special called meeting at 1:35 p.m. on Tuesday, September 28, 2004, on the Ninth Floor, Ashbel Smith Hall, 201 West Seventh Street, Austin, Texas, with the following in attendance:

ATTENDANCE.--

Present
Chairman Huffines, presiding
Vice-Chairman Clements
Vice-Chairman Hunt
Vice-Chairman Krier
Regent Barnhill
Regent Caven
Regent Craven
Regent Estrada
Regent Rowling

Counsel and Secretary Frederick

In accordance with a notice being duly posted with the Secretary of State and there being a quorum present, Chairman Huffines called the meeting to order.

1. U. T. El Paso: Relocation of the Police Department - Amendment of FY 2004-2009 Capital Improvement Program and the FY 2004-2005 Capital Budget to include project; appropriation of funds and authorization of expenditure; resolution regarding parity debt; and authorization of institutional management

The Board approved the recommendations for the Relocation of the Police Department project at The University of Texas at El Paso as follows:

Architecturally or Historically Significant:	Yes ☐ No ☒	
Institutional Management	Yes ☒ No ☐	
Project Delivery Method:	Competitive Sealed Proposals	
Substantial Completion Date:	April 2005	
Total Project Cost:	Source	Current
	Revenue Financing System Bond Proceeds	$1,700,000

a. amend the FY 2004-2009 Capital Improvement Program (CIP) and the FY 2004-2005 Capital Budget to include the project at a preliminary project cost of $1,700,000 with funding from Revenue Financing System Bond Proceeds;

b. appropriate funds and authorize expenditure of funds;

c. resolve in accordance with Section 5 of the Amended and Restated Master Resolution Establishing The University of Texas System Revenue Financing System that

   - parity debt shall be issued to pay the project's cost, including any costs prior to the issuance of such parity debt;

   - sufficient funds will be available to meet the financial obligations of the U. T. System, including sufficient Pledged Revenues as defined in the Master Resolution to satisfy the Annual Debt Service Requirements of the Financing System, and to meet all financial obligations of the U. T. Board of Regents relating to the Financing System; and

   - U. T. El Paso, which is a "Member" as such term is used in the Master Resolution, possesses the financial capacity to satisfy its direct obligation as defined in the Master Resolution relating to the issuance by the U. T. Board of Regents of tax-exempt parity debt in the aggregate amount of $1,700,000; and

d. authorize U. T. El Paso to manage the total project budgets, appoint architects, approve facility programs, prepare final plans, and award contracts.

Debt Service

The $1,700,000 in Revenue Financing System debt will be repaid from Designated Tuition. Annual debt service on the project is estimated at $142,255. Overall debt service coverage at U. T. El Paso is expected to be at least 1.5 times.

Project Description

The Relocation of the Police Department project at U. T. El Paso will convert 12,800 gross square feet of an existing 25,384 gross square foot warehouse/ office building into a new consolidated headquarters for the campus police department. The existing warehouse operation will be reconfigured to allow for this construction. The facility will house police administration, a dispatch office, special services, investigations, a patrol department, and holding cells.

The campus police has operated out of two small residential buildings on the edge of campus for the past 14 years. The facilities are inadequate to house the current staff and community service aspects of the campus police operation. The new project will combine the department administration and patrol groups under one roof, in a facility adequate for more efficient operation.

U. T. El Paso Facilities Management personnel have the experience and capability to manage all aspects of the work.

This off-cycle project has been approved by University of Texas System staff and meets the criteria for inclusion in the Capital Improvement Program.

2. U. T. El Paso: Relocation of the Purchasing Department - Amendment of FY 2004-2009 Capital Improvement Program and the FY 2004-2005 Capital Budget to include project; appropriation of funds and authorization of expenditure; resolution regarding parity debt; and authorization of institutional management

The Board approved the recommendations for the Relocation of the Purchasing Department project at The University of Texas at El Paso as follows:

Architecturally or Historically Significant:	Yes ☐ No ☒	
Institutional Management	Yes ☒ No ☐	
Project Delivery Method:	Competitive Sealed Proposals	
Substantial Completion Date:	May 2005	
Total Project Cost:	Source	Current
	Revenue Financing System Bond Proceeds	$678,000

a. amend the FY 2004-2009 Capital Improvement Program (CIP) and the FY 2004-2005 Capital Budget to include the project at a preliminary project cost of $678,000 with funding from Revenue Financing System Bond Proceeds;

b. appropriate funds and authorize expenditure of funds;

c. resolve in accordance with Section 5 of the Amended and Restated Master Resolution Establishing The University of Texas System Revenue Financing System that

- parity debt shall be issued to pay the project's cost, including any costs prior to the issuance of such parity debt;

- sufficient funds will be available to meet the financial obligations of the U. T. System, including sufficient Pledged Revenues as defined in the Master Resolution to satisfy the Annual Debt Service Requirements of the Financing System, and to meet all financial obligations of the U. T. Board of Regents relating to the Financing System; and

- U. T. El Paso, which is a "Member" as such term is used in the Master Resolution, possesses the financial capacity to satisfy its direct obligation as defined in the Master Resolution relating to the issuance by the U. T. Board of Regents of tax-exempt parity debt in the aggregate amount of $678,000; and

d. authorize U. T. El Paso to manage the total project budgets, appoint architects, approve facility programs, prepare final plans, and award contracts.

<u>Debt Service</u>

The $678,000 in Revenue Financing System debt will be repaid from Designated Tuition. Annual debt service on the project is estimated at $56,735. Overall debt service coverage at U. T. El Paso is expected to be at least 1.5 times.

<u>Project Description</u>

The Relocation of the Purchasing Department project at U. T. El Paso will renovate 5,148 gross square feet on two floors in the existing Kelly Hall building to provide office and file management space for the Purchasing Department. This relocation of the Purchasing Office is part of an overall plan to bring together many of the University's research and business service centers currently located in facilities on the northern edge of the campus remote from the academic core. This effort will create and free up space in several other buildings and better serve the majority of clients.

U. T. El Paso Facilities Management personnel have the experience and capability to manage all aspects of the work.

This off-cycle project has been approved by University of Texas System staff and meets the criteria for inclusion in the Capital Improvement Program.

3. U. T. System: Approval to return an additional $3 million of U. T. System Professional Medical Liability Benefit Plan reserves to U. T. System health institutions and to authorize return of total of $13 million to participating institutions at direction of the Executive Vice Chancellor for Health Affairs

The Board authorized an additional $3 million in University of Texas System Professional Medical Liability Benefit Plan reserves be returned to the six U. T. System health institutions.

Further, the additional $3 million, along with $10 million of the $35 million rebate approved by the Board on August 12, 2004, was authorized to be returned to U. T. System health institutions for special projects as designated by the Executive Vice Chancellor for Health Affairs.

Of the $13 million, $1 million will be allocated to The University of Texas Health Science Center at San Antonio for the Laredo Regional Academic Health Center. The remaining $12 million will be returned to the six health institutions for projects.

Pursuant to the authority of Chapter 59 of the Texas Education Code, the U. T. Board of Regents adopted The University of Texas System Professional Medical Liability Benefit Plan to provide coverage for certain physicians and medical students of the U. T. System. The Plan went into effect on April 1, 1977, and is funded primarily by payment of premiums from the Faculty Physician Practice Plans of the health institutions of the U. T. System.

4. U. T. Board of Regents: Amendment of Regents' Rules and Regulations, Part One, Chapter I, Section 7, Subsection 7.3 related to referrals to The University of Texas Investment Management Company (UTIMCO) and related disclosures

To establish a standard process for referrals of potential investment opportunities to The University of Texas Investment Management Company (UTIMCO) and to assure full disclosure of all such referrals, the Board amended the Regents' Rules and Regulations, Part One, Chapter I, Section 7, Subsection 7.3 to read as follows:

Sec. 7. Committees and Other Appointments

. . .

7.3 The University of Texas Investment Management Company (UTIMCO)

7.31 Composition and Selection of Members of the Board
Pursuant to Texas Education Code Section 66.08, the U. T. Board of Regents shall appoint the nine directors

of The University of Texas Investment Management Company (UTIMCO). Periodically, the U. T. Board of Regents will review the performance of the UTIMCO Board of Directors. At least three members of the U. T. Board of Regents and the Chancellor shall be appointed to the UTIMCO Board of Directors by the Chairman of the U. T. Board of Regents, by and with the consent of the U. T. Board of Regents. At least one director will be selected from a list of candidates with substantial background and expertise in investments, as submitted to the U. T. Board of Regents by the Board of Regents of The Texas A&M University System. The selection process for external members of the UTIMCO Board of Directors is as follows:

7.311 The Chairman of the U. T. Board of Regents and the Chairman of UTIMCO send a joint letter to leaders in the public and private sector soliciting nominations.

7.312 Nominations are to be provided to the Chairman of the U. T. Board of Regents.

7.313 The Chairman of the U. T. Board of Regents appoints a selection advisory committee to review nominations.

7.314 After review, the selection advisory committee makes recommendations to the Chairman of the U. T. Board of Regents.

7.315 At the direction of the Chairman of the U. T. Board of Regents, the Office of the Board of Regents asks individuals to complete a background questionnaire. The Office of the Board of Regents apprises those individuals of the UTIMCO Code of Ethics and disqualifications from service.

7.316 Using information from the questionnaires, the Office of the Board of Regents:

- (a) confirms the educational degrees and professional certifications;
- (b) assures that professional licensure and certifications are in good standing;
- (c) reviews business relationships, if any, with members of the Board of Regents or the UTIMCO Board or with U. T. System or UTIMCO; and
- (d) initiates review by the U. T. System Director of Police of the Texas conviction database and contacts local law enforcement.

7.317 The Chairman of the U. T. Board of Regents and the Chairman of UTIMCO conduct personal interviews, as needed, to assure that external UTIMCO directors possess varied investment backgrounds and risk management expertise.

7.318 The Chairman of the U. T. Board of Regents submits a recommended appointment for approval by the U. T. Board of Regents.

7.32 Referrals to UTIMCO and Related Disclosures

7.321 Members of the U. T. Board of Regents and U. T. System officers and employees shall avoid all appearance of conflict of interest pertaining to UTIMCO's investment opportunities. Referral of information related to investment opportunities outside of a posted open meeting of the U. T. Board of Regents or the UTIMCO Board of Directors must be made directly to the UTIMCO President and CEO without endorsement of the merits of the potential investment and with full disclosure concerning whether the investment opportunity involves any potential economic benefit to the individual making the referral or to an individual related within the second degree of affinity or the third degree of consanguinity to the individual making the referral. Referrals will be accepted with the understanding that decisions on individual investments are at the discretion of the UTIMCO Board and staff.

7.322 Members of the UTIMCO Board of Directors are to be guided by the same requirements through UTIMCO policies.

7.323 Should UTIMCO staff ultimately recommend to the UTIMCO Board an investment that was the subject of a direct referral from a member of the U. T. Board of Regents, an officer or employee of the U. T. System, or a member of the UTIMCO Board of Directors, UTIMCO staff is required to disclose the source of the referral and whether such referral involves any potential economic benefit to the individual making the referral or to an individual related within the second degree of affinity or the third degree of consanguinity to the individual making the referral.

Chairman Huffines commented that referrals to UTIMCO have not been a problem in the past, but he felt it was important to formalize a policy in the Regents' Rules to ensure referrals are documented and fully disclosed. He stated that this amendment was proposed not to address particular problems but to assure transparency and disclosure on any referrals of potential investment opportunities to UTIMCO and disclosures of any financial interests related to such referrals. Chairman Huffines said the amendment also provides additional support to the strict requirements of the UTIMCO Code of Ethics policy.

Chancellor Yudof said this amendment follows good business practice and echoed Chairman Huffines' comments that there have not been past problems and the amendments conform the Regents' Rules to existing practice. Chairman Huffines added that the amendment makes this practice permanent for the future.

Vice-Chairman Krier clarified that the amendment is not intended to expand the ability of anyone to direct investments and Regent Rowling said the amendment is also not intended to discourage investment opportunities for UTIMCO. Chairman Huffines agreed and said the intention is to formalize disclosure. Chancellor Yudof added that it is the responsibility of the UTIMCO staff to evaluate investments and emphasized that investment decisions are not political decisions.

5. U. T. Board of Regents: Appointment of Mr. Clint D. Carlson, Dallas, Texas, and Mr. Charles W. Tate, Houston, Texas, to the Board of Directors of The University of Texas Investment Management Company (UTIMCO)

In accordance with Section 66.08 of the Texas Government Code and upon recommendation of Chairman Huffines, the Board appointed two external directors to The University of Texas Investment Management Company (UTIMCO) Board of Directors as follows:

a. Mr. Clint D. Carlson, Dallas, Texas, for a term ending on April 1, 2007

b. Mr. Charles W. Tate, Houston, Texas, for a term ending April 1, 2008.

Chairman Huffines said these appointments are critically important to The University of Texas System and respond to a recommendation from the UTIMCO Working Group approved in April 2004.

Mr. Clint Carlson is President and Chief Investment Officer of Carlson Capital, L.P., the investment advisor of the Black Diamond group of hedge funds. He is the former Head of Risk Arbitrage for Bass Brothers in Fort Worth.

Mr. Charles Tate is Chairman and Founding Partner of Capital Royalty, L.L.C. He was a partner and member of the Management Committee of Hicks, Muse, Tate & Furst, Inc., and has more than 30 years of experience in investment and merchant banking with 20 years with Morgan Stanley and Company.

The positions to be filled were previously held by Mr. J. Luther King, Jr., and Ms. Susan M. Byrne and are not "affiliated Director" positions. Mr. King was appointed for a term expiring on April 1, 2004. Ms. Byrne was appointed to a term to expire on April 1, 2005; she has provided notice of intent to resign prior to the expiration of the term.

Chairman Huffines thanked the advisory committee of Regent Caven, Vice-Chairman Clements, and Vice-Chairman Hunt and Mr. J. Philip Ferguson, a member of the UTIMCO Board of Directors, for a fine job in seeking and reviewing candidates for the Board. He said he would plan to include a topic on the agenda for the first Joint Annual Meeting of the U. T. Board of Regents and the UTIMCO Board of Directors, to be scheduled for July 2005, that will allow discussion of a formal position description for UTIMCO Directors.

Regent Caven said the new selection process related to appointment of members of the Board of Directors outlined in the Regents' Rules and Regulations, Part One, Chapter I, Section 7, Subsection 7.3 was strictly followed and he gave a brief summary of the process that he said resulted in the selection of two outstanding candidates. Vice-Chairman Hunt concurred with Regent Caven's comments and complimented the UTIMCO Working Group for developing a positive process that produced very good results. Vice-Chairman Clements agreed that the new process is an improvement that resulted in a number of high-quality candidates. Chairman Huffines added that the process was very inclusive and The Texas A&M University System Board of Regents, a partner in UTIMCO, was kept informed throughout the process. Vice-Chairman Hunt said the most important duty of the Board of Regents with regard to UTIMCO is to appoint qualified and committed outside directors and added these appointments respond to a UTIMCO Working Group recommendation for a more diversified skill set at the level of the Board of Directors.

6. U. T. Board of Regents: Approval of Incentive Compensation Program for The University of Texas Investment Management Company (UTIMCO)

Upon motion of Chairman Huffines (see Page 67) and by a vote of six to two (see Page 67) and upon recommendation of The University of Texas Investment Management Company (UTIMCO) Board of Directors, the Board approved a UTIMCO Compensation Program as set out on Pages 12 - 35.

The UTIMCO Compensation Program consists of two elements: base salary and an annual incentive plan, known as the Performance Incentive Plan. The basic provisions of the Compensation Program are summarized as follows:

- The compensation philosophy is to "attract and retain high caliber employees from nationally recognized peer institutions and the investment community in general".

- The compensation survey used to set the targeted compensation levels was conducted by Mercer Human Resource Consulting and includes 10 large university endowments and five foundations and organizations that manage foundation funds.

- Total compensation (base salary plus Incentive Award) is targeted at the 50th percentile. Maximum total compensation is targeted at the 75th percentile.

- The Performance Incentive Plan is effective September 1, 2004.

- Each participant in the Plan is assigned an "Incentive Award Opportunity" (Opportunity) expressed as a percentage of base salary. The Opportunity is based on a combination of entity (UTIMCO) performance, asset class performance, and individual performance.

- Approved Awards are capped based on a percentage of the employee's salary and are paid 70% after the end of the performance period and the remaining 30% is scheduled to vest over three years (33 1/3% in year one, 66 2/3% in year two, and 100% in year three.)

- Vesting is contingent upon continued employment with UTIMCO.

- Entity performance for assessment of compensation is based on three-year rolling average of performance in excess of the Total Endowment Assets (Permanent University Fund and General Endowment Fund), adjusted for those employed less than three years. The performance of operating funds is not included in determination of entity performance. The maximum entity performance-related Award may be earned if the return on Total Endowment Assets equals or exceeds the 75th percentile (top quartile of 36 peer endowments, as identified on Page 35); eligibility for an entity performance-related Award is achieved for performance at the 40th percentile.

- Asset class performance is based on investment returns in excess of three-year rolling benchmark, adjusted for those employed less than three years.

- Individual performance is based on measurable qualitative factors.

- An individual may be considered for an Award if employed in an eligible position by March 31, six months before the end of the period set for calculating performance for each plan year.

- The Plan is in effect until terminated by the UTIMCO Board and may be changed, modified, or suspended by the UTIMCO Board.

The former UTIMCO Performance Compensation Plan was effective September 1, 2000. The new UTIMCO Compensation Program was approved by the UTIMCO Compensation Committee on September 13, 2004, and by the UTIMCO Board of Directors on September 15, 2004.

The most significant change from the former UTIMCO Compensation Plan is the shift to peer competitiveness. The former Compensation Plan was totally based on performance related to asset policy benchmarks and the achievement of individual nonquantitative goals. In addition, proposed maximum incentive compensation is increased significantly to correspond to the increased performance requirements of the new Plan.

The Compensation Program was based on a plan developed by Mercer, revised by UTIMCO based upon comments of tax counsel and U. T. System staff, rewritten after input from UTIMCO Chairman Hunt on the determination of performance goals, modified as approved by the UTIMCO Compensation Committee, and revised prior to presentation to the UTIMCO Board to address governance issues identified by U. T. System staff as inconsistent with Bylaws revisions required by the U. T. Board. Following approval by the UTIMCO Board, the Plan was revised at the direction of Vice-Chairman Hunt, pursuant to authority delegated by the UTIMCO Board, to modify provisions providing authority to the UTIMCO Board to make Awards at variance with the outline of the Plan.

The Compensation Program has been the subject of considerable review and discussion with U. T. System staff who have offered edits to assure that the language complies with federal requirements for tax-deferral for the deferred payment portions of the Performance Incentive Plan; to assure consistency with the governance responsibilities of the U. T. Board of Regents and recommended changes to UTIMCO Bylaws approved by the Board of Regents on August 12, 2004; and to improve clarity.

A transcription of the discussion of this item is set forth in Attachment A on Pages 42 - 67.

UTIMCO
COMPENSATION PROGRAM

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1. PROGRAM STRUCTURE

The UTIMCO Compensation Program consists of two elements, base salary and an annual incentive plan (the “Performance Incentive Plan” or “Plan”):

Base Salary + Performance Incentive = Total Compensation

2. COMPENSATION PROGRAM OBJECTIVES

UTIMCO’s Compensation Program serves a number of objectives:

- To attract and retain key investment and operations staff of outstanding competence and ability.
- To encourage key investment staff to develop a strong commitment to the performance of the assets for which UTIMCO has been delegated investment responsibility.
- To motivate key investment staff to focus on maximizing real, long-term returns for all funds managed by UTIMCO while assuming appropriate levels of risk.
- To facilitate teamwork so that members of UTIMCO operate as a cohesive group.

3. TOTAL COMPENSATION PROGRAM PHILOSOPHY

UTIMCO aspires to attract and retain high caliber employees from nationally recognized peer institutions and the investment management community in general. UTIMCO strives to provide a total compensation program that is competitive nationally, with the elements of compensation evaluated relative to comparably sized University endowments, foundations, in-house managed pension funds and for-profit investment management firms with a similar investment philosophy (e.g., externally managed funds).

UTIMCO’s total Compensation Program is positioned against the competitive market as follows:

- Base salaries are targeted at the market median (e.g., 50th percentile).
- Target total compensation (salary plus target Incentive Award Opportunity) is positioned at the market median.
- Maximum total compensation (salary plus maximum Incentive Award Opportunity) is targeted at the market 75th percentile if performance is outstanding. (For this purpose, 0 is the lowest point and 100 is the highest.)

Although base salaries as well as target and maximum total compensation have a targeted positioning relative to market, an individual employee’s actual total compensation may vary from the targeted positioning based on the individual’s experience, education, knowledge, skills and performance as well as UTIMCO's investment performance as described in this document. Except as provided in Section 5.8 for purposes of determining the length of historical performance, base salaries and Incentive Award Opportunities (as well as the actual Performance Incentive Awards) are not determined based on seniority at UTIMCO.

4. BASE SALARY ADMINISTRATION

4.1. Salary Structure

(a) Base salaries are administered through a Salary Structure as set forth in this Section 4.1. Each position has its own salary range, with the midpoint set approximately equal to the market median base salary for positions with similar job content and level of responsibility. In most cases, the salary range will be from 20% below the midpoint to 20% above the midpoint.

(b) The salary range midpoints will be determined by the Compensation Committee based on consultation with an outside compensation consultant and with UTIMCO management. Salary range midpoints for key management, investment and operations positions will be updated at least every three years based on a salary benchmarking study conducted by a qualified compensation consultant selected by the Compensation Committee. In years in which the Compensation Committee does not commission a formal salary survey, the base salary midpoints may be adjusted at the Compensation Committee's discretion based on expected annual salary structure adjustments as reported in one or more published compensation planning surveys.

4.2. Salary Adjustments

(a) Individual employees' base salaries are determined by the Board. Base salaries will be set within the salary range for each position. An individual's base salary within the range may be higher or lower than the salary range midpoint based on his or her level of experience, education, knowledge, skills and performance. On an exception basis, the Board may set individual base salaries outside of the salary range if an individual either substantially exceeds or does not meet all of the market criteria for a particular position (e.g., recent promotion).

(b) Individuals may receive an annual adjustment (increase or decrease) of their base salaries at the discretion of the Board. Base salary adjustments, if any, will be determined based on each Participant's experience, education, knowledge, skills and performance. Employees are not guaranteed an annual salary increase.

5. PERFORMANCE INCENTIVE PLAN

5.1. Purpose of the Performance Incentive Plan and Effective Date

(a) The purpose of the Performance Incentive Plan is to provide an annual Performance Incentive Award based on specific objective criteria relative to UTIMCO's and each Participant's performance. The primary objectives of the Performance Incentive Plan are outlined in Section 2.

(b) The Performance Incentive Plan restates and supercedes the UTIMCO Performance Compensation Plan, which was effective September 1, 2000 ("Prior Plan"). The effective date of this restated Performance Incentive Plan is September 1, 2004 (the "Effective Date").

5.2. Performance Period

(a) For purposes of the Performance Incentive Plan, the Performance Period begins on July 1 of each year and ends the following June 30.

(b) Except as otherwise provided under Section 5.8 and Section 5.9, performance for a year in the historical performance period will be measured between July 1 and the following June 30 of the applicable year for gauging achievement of the Entity and Asset Class Performance Goals.

5.3. Eligibility and Participation

(a) Each employee (and only such an employee) who is (i) employed by UTIMCO in an "Eligible Position" and (ii) selected by the Board as eligible to participate in the Performance Incentive Plan will become a "Participant." "Eligible Positions" include senior management, investment staff, and other key positions as determined from time to time by the President and CEO, subject to approval by the Board. Eligible Positions will be confirmed by the Board within the first 60 days of the Performance Period. The Board in its discretion may also designate a newly hired or promoted employee to be in an Eligible Position during a Performance Period. An Eligible Position in one Performance Period is not automatically an Eligible Position in any subsequent Performance Period. A list of Eligible Positions for the 2004/2005 Performance Period is set forth on the table in Section 5.5(b).

(b) An employee in an Eligible Position who has been selected by the Board to participate in the Plan will become a Participant in the Plan on the latest of (i) the date he or she is employed in an Eligible Position, (ii) the date he or she is selected by the Board to participate in the Plan, or (iii) any later date as designated by the Board; provided, however, that an employee may not commence participation in the Plan and first become a Participant during the last six months of any Performance Period, except when compelling individual circumstances justify a shorter period of time and such circumstances are recorded in the minutes of a meeting of the Board. If, during the last six months of any Performance Period, an employee has been selected by the Board to participate in the Plan or becomes employed in an Eligible Position, participation in the Plan will be delayed until the first day of the next Performance Period (assuming such employee is employed by UTIMCO in an Eligible Position on such date).

(c) An employee will cease to be a Participant in the Plan on the earliest to occur of: (i) the date such employee is no longer employed in an Eligible Position; (ii) the date of termination of such employee's employment with UTIMCO for any reason (including voluntary and involuntary termination, death, and disability); (iii) the date of termination of the Plan; (iv) the date such employee commences a leave of absence; (v) the date such employee begins participation in any other UTIMCO incentive program; (vi) the date the Board designates that such employee's employment position is not an Eligible Position; or (vii) any date designated by the Board as the date on which such employee is no longer a Participant.

(d) Except as provided in Sections 5.10(b), (c), and (d), only Participants are eligible to receive Performance Incentive Awards under the Performance Incentive Plan.

5.4. Performance Goals

(a) Within the first 60 days of each Performance Period, the President and CEO will recommend goals ("Performance Goals") for each Participant (other than the Performance Goals for the President and CEO, which are determined as provided in Section 5.4(c), and the Performance Goals for employees who are hired or promoted during a Performance Period) subject to approval by the Compensation Committee within the first 90 days of the Performance Period. The President and CEO will also recommend Performance Goals for employees who are hired or promoted during the Performance Period and become Participants (subject to confirmation by the Compensation Committee) at the time those employees are designated as Participants.

(b) There are three types of Performance Goals:

(1) Entity Performance (i.e., performance of the Total Endowment Assets)

(2) Asset Class Performance (e.g., US public equity, international equity, private capital, fixed income, etc.)

(3) Individual Performance

Except for the President and CEO, Individual Performance Goals will be defined jointly by each Participant and his or her supervisor. These Individual Performance Goals will be measurable and subject to approval by the

President and CEO as well as the Compensation Committee. Individual Performance Goals may be established in one or more of the following areas:

- Leadership
- Implementation of operational goals
- Management of key strategic projects
- Effective utilization of human and financial resources

(c) The President and CEO's Performance Goals will be determined and approved by the Board.

(d) Each Performance Goal is assigned a weight as illustrated in the table in Section 5.5(b), which shows the weightings for each Eligible Position for the 2004/2005 Performance Period. For each Performance Period, the Compensation Committee will approve the weightings of the Performance Goals at the same time it approves the Performance Goals.

5.5. Incentive Award Opportunity Levels and Performance Incentive Awards

(a) At the beginning of each Performance Period, each Participant is assigned an "Incentive Award Opportunity" for each Performance Goal. The Incentive Award Opportunity is determined by the Board and is expressed as a percentage of base salary earned during the Performance Period. The Incentive Award Opportunities include a threshold, target, and maximum award for achieving commensurate levels of performance of the respective Performance Goal.

(b) Incentive Award Opportunities for the 2004/2005 Performance Period are set forth in the following table:

	Weighting			Incentive Award Opportunity (% of Base Salary)			
Eligible Position	**Entity**	**Asset Class**	**Individual**	**< Threshold**	**Threshold**	**Target**	**Maximum**
		Investment Professionals					
President, CEO & CIO	70%	0%	30%	0%	18%	90%	180%
Deputy CIO & MD of Marketable Alt. Invest.	40%	40%	20%	0%	13%	65%	130%
Risk Manager	70%	0%	30%	0%	12%	60%	120%
MD, Public Markets Invest.	20%	60%	20%	0%	12%	60%	120%
MD, Inflation Hedging Assets	20%	60%	20%	0%	12%	60%	120%
Co-MD, Non-Marketable Alt Inv (n=2)	30%	50%	20%	0%	12%	60%	120%
Portfolio Manager, Equity Invest.	20%	60%	20%	0%	10%	50%	100%
Sr. Portfolio Mgr., Fixed Income Invest.	20%	60%	20%	0%	10%	50%	100%
Portfolio Manager, Fixed Income Invest.	20%	60%	20%	0%	10%	50%	100%
Analytical Support	20%	60%	20%	0%	5%	25%	50%
		Operations/Support Professionals					
MD, Accounting, Finance & Admin.	20%	0%	80%	0%	10%	50%	100%
MD, Information Technology	20%	0%	80%	0%	10%	50%	100%
Manager, Finance & Administration	20%	0%	80%	0%	5%	25%	50%
Manager, Investment Reporting	20%	0%	80%	0%	5%	25%	50%
Manager, Portfolio Accounting & Ops.	20%	0%	80%	0%	5%	25%	50%

(c) Actual “Performance Incentive Awards” are the amounts that are actually awarded to Participants for the respective Performance Period. Actual Performance Incentive Awards will range from zero (if a Participant performs below threshold on all Performance Goals) to the maximum Incentive Award Opportunity (if a Participant performs at or above maximum on all Performance Goals) depending on performance relative to objectives. Awards are capped at maximum levels regardless of whether a Participant exceeds the stated maximum Performance Goals.

(d) Following the end of each Performance Period, the Compensation Committee will review the actual performance of each Participant against the Performance Goals of the respective Participant and determine the Participant’s level of achievement of his or her Performance Goals. The Compensation Committee will seek, and may rely on, the independent confirmation of the level of Performance Goal achievement from an external investment consultant to evaluate Entity Performance and Asset Class Performance. The President and CEO will submit a written report to the Compensation Committee, which documents the Participant’s performance relative to the Participant’s Performance Goals set at the beginning of the Performance Period and upon which the Compensation Committee may rely in evaluating the Participant’s performance. The Board will determine the President and CEO’s level of achievement relative to the President and CEO’s Performance Goals.

(e) Performance Incentive Awards will be calculated for each Participant based on the percentage achieved of each Performance Goal, taking into account the weighting for the Participant’s Entity Performance, Asset Class Performance, and Individual Performance Goals and each Participant’s Incentive Award Opportunity. The Compensation Committee will review all Performance Incentive Award calculations, based on the certification of its advisors, and submit its recommendations to the Board for approval.

(f) The methodology for calculating Incentive Award Opportunities and Performance Incentive Awards is presented in Appendix A.

(g) Within 150 days following the end of a Performance Period, the Compensation Committee will review and make recommendations concerning Performance Incentive Awards to Participants whom it determines to have met or exceeded the performance benchmarks for the Performance Period. Subject to the provisions of 7.1(a), the Board will approve Performance Incentive Awards.

(h) Following the approval of a Performance Incentive Award, the Board will promptly notify each Participant as to the amount, if any, of the Performance Incentive Award as well as the terms, provisions, conditions and limitations of the Nonvested Deferred Award, if any.

5.6. Form and Timing of Payouts of Performance Incentive Awards

Approved Performance Incentive Awards will be paid as follows:

(a) Seventy percent of the Performance Incentive Award will be paid to the Participant ("Paid Performance Incentive Award") within 150 days of the completion of the Performance Period, and

(b) Thirty percent of the Performance Incentive Award will be treated as a "Nonvested Deferred Award" subject to the terms of Section 5.7 and paid in accordance with that Section.

5.7. Deferred Awards

(a) Nonvested Deferred Awards will be credited to a hypothetical account on UTIMCO's books in the individual Participants' names ("Nonvested Deferred Award Account(s)") as of the date that the corresponding Paid Performance Incentive Awards are transmitted to Participants. For each Performance Period, a Nonvested Deferred Award Account will be established for each Participant to which will be credited the Nonvested Deferred Award of such Participant for such Performance Period. The Nonvested Deferred Award Accounts will be credited (or debited) monthly with an amount equal to the net investment returns of the Total Endowment Assets ("Net Returns") for the month multiplied by the balance of the respective Participant's Nonvested Deferred Award Account(s) as of the last day of the month. When the Nonvested Deferred Award is initially credited to the Nonvested Deferred Award Account, the Nonvested Deferred Award Account will be credited (or debited) with Net Returns for the month of the initial credit of a Nonvested Deferred Award, but the Net Returns will be prorated to reflect the number of days of the month during which the amounts were credited to the Nonvested Deferred Award Account. Participants are not entitled to their Nonvested Deferred Awards unless they become vested in those awards.

(b) Assuming continued employment with UTIMCO, except as provided in Section 5.10(c), Nonvested Deferred Awards for each respective Performance Period will vest and become payable according to the following schedule:

(1) On the first anniversary of the end of the Performance Period for which the Nonvested Deferred Award was earned, one third of the Nonvested Deferred Award Account then credited to the Participant will be vested and paid to the Participant.

(2) On the second anniversary of the end of the Performance Period for which the Nonvested Deferred Award was earned, one half of the Nonvested Deferred Award Account then credited to the Participant will be vested and paid to the Participant.

(3) On the third anniversary of the end of the Performance Period for which the Nonvested Deferred Award was earned, the remaining Nonvested Deferred Award Account for that Performance period then credited to the Participant will be vested and paid to the Participant.

(c) Notwithstanding the provisions of paragraphs (a) and (b) of this Section 5.7, upon execution of an "Election to Defer Payment of Vested Deferred Awards" form authorized by the Compensation Committee, a Participant may elect to defer payment of all or part of his or her Nonvested Deferred Awards that have become vested in accordance with Section 5.7(b) (including credited Net Returns) ("Vested Deferred Awards"). Such election must be made within 30 days prior to the date such amounts become vested. Vested Deferred Awards will be credited to a hypothetical account on UTIMCO's books in the individual Participants' names ("Vested Deferred Award Account(s)") as of the date that such amounts become vested. Net Returns will be determined for each Vested Deferred Award Account at the end of each calendar year (or any earlier day in the calendar year on which the Participant terminates employment with UTIMCO) and will be allocated to a subaccount of the Participant's Vested Deferred Award Account ("Net Return Subaccount") established for the Participant each year. A Participant may elect to be paid all or any portion of his or her Vested Deferred Awards (but not amounts credited to his or her Net Return Subaccounts) allocated to his or her Vested Deferred Award Account at any time subject to reasonable administrative procedures established by UTIMCO; provided, however, that if the total balance of a Participant's Net Return Subaccounts is negative at the time he or she makes such an election, the Participant will not be able to withdraw more than the amount of his or her Vested Deferred Awards net of such negative balance. Any such Vested Deferred Awards elected to be withdrawn will be paid as soon as reasonably practicable after the Performance Measurement Date of the month during which the Participant makes the election. Each Net Return Subaccount of a Participant will be distributed to the Participant on the third anniversary of the date of allocation of such amounts to such subaccount, and the Participant will not be able to receive any amounts from his or her Net Return Subaccount prior to such time; provided, however, that if a Net Return Subaccount has a negative balance on such third anniversary, distribution of such subaccount will be made on the next following anniversary on which such Net Return Subaccount has a positive balance. Participants are responsible for all income tax consequences associated with Participant's Vested Deferred Award Account and Net Return Subaccounts.

(d) Notwithstanding the provisions of Section 5.7(c), each Participant who terminates employment with UTIMCO for any reason will be paid (or, in the case of a deceased Participant, his or her estate will be paid) the balance of his or her Vested Deferred Award Account, increased or decreased by the positive or negative balance of his or her Net Return Subaccounts. Such amounts will be paid as soon as reasonably practicable after the Performance Measurement

Date of the month during which the Participant terminates employment with UTIMCO.

(e) Notwithstanding any provision of the Plan to the contrary, at any time prior to the time such amounts would otherwise be distributed under paragraphs (c) or (d) of this Section 5.7, the Board in its discretion may distribute to a Participant the balance of the Participant's Vested Deferred Award Account, increased or decreased by the positive or negative balance of his or her Net Return Subaccounts.

5.8. Performance Standards

(a) Entity Performance

(1) Entity Performance for purposes of the Performance Incentive Plan is the performance of the Total Endowment Assets. Entity Performance under the Performance Incentive Plan is based on performance relative to a Peer Group. Except as provided in Section 5.9, performance relative to the Peer Group will be measured based on 3-year rolling historical performance.

(2) The Board's chosen investment advisor will determine the performance of the Peer Group annually for the Performance Period. The Board's investment advisor will calculate a percentile rank for Entity Performance relative to the Peer Group, with the 100^{th} percentile representing the highest rank, the 50^{th} percentile representing the median and the 0^{th} percentile representing the lowest rank. Threshold awards will be earned for reaching the 40^{th} percentile, target awards will be earned for reaching the 60^{th} percentile, and maximum awards will be earned for reaching the 75^{th} percentile, with Performance Incentive Awards interpolated in a linear fashion between threshold and target as well as between target and maximum.

(b) Asset Class Performance

(1) Except as provided in subparagraph (2) below and Section 5.9, Asset Class Performance will be measured relative to the appropriate benchmark based on 3-year rolling historical performance. Performance standards for each asset class will vary depending on the ability to outperform the respective benchmark. The following table identifies the benchmarks for each asset class as well as threshold, target, and maximum performance standards. Performance Incentive Awards will be interpolated in a linear fashion between threshold and target as well as between target and maximum.

Asset Class	Benchmark	Policy Portfolio Weights (% of Portfolio)	Performance Standards Threshold	Target	Maximum
Entity: Peer goup	Peer group (Endowments w/ >$ 1 B assets)	n/a	40th %ile	60th %ile	75th %ile
US Public Equity	Russell 3000	20.0%	+0 bps	+31 bps	+62 bps
International Equity	MSCI All Country World Index, Ex US	17.0%	+0 bps	+52.5 bps	+105 bps
Fixed Income	Lehman Brothers Aggregate Bond Index	10.0%	+0 bps	+12.5 bps	+25 bps
Private Capital	Roll up of Private Equity & Venture Capital	15.0%			
Private Equity	Venture Economics Private Equity Database	--	+0 bps	+100 bps	+200 bps
Venture Capital	Venture Economics Venture Capital Database	--	+0 bps	+112.5 bps	+225 bps
Absolute Return Hedge Funds	91-Day T-Bill	15.0%	+300 bps	+350 bps	+400 bps
Equity Hedge Funds	91-Day T-Bill	10.0%	+400 bps	+465 bps	+530 bps
Inflation Hedge	Roll up of Commodities, TIPS & REITS	13.0%			
Commodities	Goldman Sachs Commodity Index	3.0%	-100 bps	-15 bps	+0 bps
TIPS	Lehman Brothers US TIPS Index	5.0%	+0 bps	+2.5 bps	+5 bps
REITS	Dow Jones Wishire Real Estate Securities Index	5.0%	+0 bps	+37.5 bps	+75 bps
Cash	91-Day T-Bill	0.0%	+0 bps	+0 bps	+0 bps
Short Intermediate Term Fund	SITF Policy Statement	--	+0 bps	+5 bps	+10 bps

(2) Performance for the private capital asset class is calculated differently than other asset classes due to its longer investment horizon and illiquidity of assets. Performance of the private capital asset class is determined based on the performance of partnership commitments made by the current private capital team since 2001 based on internal rates of return (IRR's) relative to the respective Venture Economics benchmarks.

(c) Individual Performance

Individual Performance will be measured based on performance during the Performance Period.

5.9. Modification of Performance Standards for Newly Hired Employees

Although Entity Performance and most Asset Class Performance are measured based on three-year rolling historical performance, newly hired Participants will be phased into the Plan so that Entity and Asset Class Performance are measured over a period of time consistent with each Participant's tenure at UTIMCO. This provision ensures that Participants are measured and rewarded over a period of time consistent with which they influenced the performance of the entity or a particular asset class. In the Performance Period in which a Participant begins participation in the Plan, the Entity and Asset Class Performance component of the Incentive Award Opportunity will be based on one full year of historical performance (i.e., the performance for the Performance Period during which the Participant commenced Plan participation). During a Participant's second year of Plan participation, the Entity and Asset Class Performance component of the Incentive Award Opportunity will be based on two full years of historical performance. In the third year of a Participant's Plan participation and beyond, the Entity and Asset Class Performance component of the Incentive Award Opportunity will be based on the three full years of rolling historical performance. This provision will apply to Participants who are current UTIMCO employees and were hired after July 1, 2001.

5.10. Termination Provisions

(a) Except as otherwise provided in this Section 5.10, any Participant who ceases to be a Participant (either because of termination of employment with UTIMCO or for any other reason stated in Section 5.3(c)) prior to the end of a Performance Period will not be eligible to receive payment of any Performance Incentive Award for that or any subsequent Performance Periods. In addition, a Participant will only continue to vest in Nonvested Deferred Awards while he or she is employed with UTIMCO and will forfeit any Nonvested Deferred Awards at termination of employment with UTIMCO. Unless distributed earlier under the terms of the Plan and subject to Sections 7.6 and 7.8, all Vested Deferred Awards are payable at termination of employment in accordance with Section 5.7(d).

(b) If a Participant ceases to be a Participant in the Plan under Section 5.3(c) prior to the end of a Performance Period because his or her employment position is no longer an Eligible Position (but such employee continues to be employed with UTIMCO), such Participant's Performance Incentive Award for the current Performance Period, if any, will be calculated on a prorated basis from the first day of the Performance Period to the Performance Measurement Date immediately preceding or, if applicable, coinciding with the date the Participant ceases to be in an Eligible Position, and such individual will not be entitled to any Performance Incentive Awards for any Performance Period thereafter (unless he or she again becomes a Participant in accordance with Sections 5.3(a) and (b)). All Nonvested Deferred Awards continue to vest subject to the provisions of Section 5.7(b).

(c) If a Participant ceases to be a Participant in the Plan under Section 5.3(c) prior to the end of a Performance Period because his or her employment with UTIMCO terminates due to death or disability (as defined in the Internal Revenue Code §22(e)(3)), the Participant's Performance Incentive Award for the Performance Period in which termination occurs will be paid at target on a prorated basis from the first day of the Performance Period to the Performance Measurement Date immediately preceding or, if applicable, coinciding with the date of the Participant's death or disability, and such individual will not be entitled to any Performance Incentive Awards for any Performance Period thereafter (unless he or she again becomes a Participant in accordance with Sections 5.3(a) and (b)). All Nonvested Deferred Awards will vest immediately and be paid. Payments under this provision will be made to the estate or designated beneficiaries of the deceased Participant or to the disabled Participant, as applicable, in accordance with Section 5.7(d) within 60 days of the date of termination of employment.

(d) If a Participant ceases to be a Participant in the Plan under Section 5.3(c) prior to the end of a Performance Period because he or she commences a Compensation Committee-approved leave of absence, such Participant's Performance Incentive Award for the current Performance Period, if any, will be calculated on a prorated basis from the first day of the Performance Period to the Performance Measurement Date immediately preceding or coinciding with the date the Participant commences such leave of absence, and such individual will not be entitled to any Performance Incentive Awards for any Performance Period thereafter (unless he or she again becomes a Participant in accordance with Sections 5.3(a) and (b)).

6. PLAN AUTHORITY AND RESPONSIBILITY

(a) Except as otherwise specifically provided in this Compensation Program with respect to powers, duties, and obligations of the Compensation Committee, the Compensation Program will be administered by the Board.

(b) The Board has all powers necessary or advisable to administer the Plan as it determines in its discretion, including, without limitation, the authority to:

(1) Establish the conditions for the determination and payment of compensation by establishing the provisions of the Performance Incentive Plan.

(2) Select the employees who are eligible to be Participants.

(3) Subject to the terms of the Plan, determine the amount and timing of Performance Incentive Awards under the Plan.

(4) Establish the base salaries, Performance Incentive Opportunity Levels and Performance Incentive Awards.

(5) Delegate to any other person, committee, or entity any of its ministerial powers and/or duties under the Plan as long as any such delegation is in writing and complies with the UTIMCO Bylaws.

7. PERFORMANCE INCENTIVE PLAN INTERPRETATION

7.1. Board Discretion

(a) Consistent with the provisions of the Plan, the Board has the discretion to interpret the Plan and may from time to time adopt such rules and regulations that it may deem advisable to carry out the Plan. All decisions made by the Board in selecting the Participants approved to receive Performance Incentive

Awards, including the amount thereof, and in construing the provisions of the Plan or the terms of any Performance Incentive Awards are final and binding on all Participants.

(b) Notwithstanding any provision of the Plan and subject to the requirements that the approval of Performance Incentive Awards that will result in an increase of 5% or more in the total Performance Incentive Awards calculating using the methodology set out in Appendix A must have the prior approval of the U.T. System Board of Regents, the Board shall have the discretion and authority to make changes in the terms of the Plan in determining a Participant's eligibility for, or amount of, a Performance Incentive Award for any Performance Period whenever it considers that circumstances have occurred during the Performance Period so as to make such changes appropriate in the opinion of the Board, provided however, any such change shall not deprive or eliminate a Vested Deferred Award of a Participant and that such circumstances are recorded in the minutes of a meeting of the Board.

7.2. Duration, Amendment and Termination

The Board shall have the right in its discretion to amend the Plan or any portion thereof from time to time, to suspend it for a specified period, or to terminate it entirely or any portion thereof. However, if the Plan is suspended or terminated during a Performance Period, Participants will receive a prorated Performance Incentive Award based on performance achieved and base salary earned through the Performance Measurement Date immediately preceding such suspension or termination. The Plan shall be in effect until suspension or termination by the Board; provided, however, that if the Board so determines at the time of any suspension or termination, Nonvested Deferred Awards credited to Participants' Nonvested Deferred Award Account(s) as of the effective date of such suspension or termination will continue to be administered under the terms of the Plan after any suspension or termination, except as the Board otherwise determines in its discretion at the time of such suspension or termination.

7.3. Record Keeping and Reporting

(a) All records for the Compensation Program shall be maintained by the Managing Director of Accounting, Finance and Administration at UTIMCO. Relative performance data and calculations shall be reviewed by UTIMCO's external investment consultant before Performance Incentive Awards are finalized and approved by the Board.

(b) UTIMCO will provide all Participants with a comprehensive report of the current value of their respective Nonvested and Vested Deferred Award Account balances, including a complete vesting status of those balances, on at least a quarterly basis.

7.4. Continued Employment

Nothing in the adoption of this Plan or the awarding of Performance Incentive Awards shall confer on any employee the right to continued employment with UTIMCO or affect in any way the right of UTIMCO to terminate his or her employment at any time.

7.5. Non-transferability of Awards

Except for the rights of the estate or designated beneficiaries of Participants to receive payments, as set forth herein, Performance Incentive Awards under the Plan are non-assignable and non-transferable and are not subject to anticipation, adjustment, alienation, encumbrance, garnishment, attachment or levy of any kind. The preceding notwithstanding, the Plan will pay a Vested Deferred Award in accordance with an order that meets the requirements of a "qualified domestic relations order" as set forth in Section 414(p) of the Internal Revenue Code and Section 206(d) of ERISA.

7.6. Unfunded Liability

(a) Neither the establishment of this Plan, the awarding of Performance Incentive Awards, the creation of Nonvested Deferred Awards Accounts, nor the creation of Vested Deferred Awards Accounts shall be deemed to create a trust. The Plan shall constitute an unfunded, unsecured liability of UTIMCO to make payments in accordance with the provisions of the Plan. Any amounts set aside by UTIMCO to assist it in the payment of Performance Incentive Awards or other benefits under the Plan, including without limitation, amounts set aside to pay for Nonvested Deferred Awards and Vested Deferred Awards, shall be the assets of UTIMCO, and no Participant shall have any security or other interest in any assets of UTIMCO or the Board of Regents of The University of Texas System by reason of the Plan.

(b) Nothing contained in the Plan shall be deemed to give any Participant, or any personal representative or beneficiary, any interest or title to any specific property of UTIMCO or any right against UTIMCO other than as set forth in the Plan.

7.7. Compliance with State and Federal Law

No portion of the Plan shall be effective at any time when such portion violates an applicable state or federal law, regulation or governmental order or directive.

7.8. Federal, State and Local Tax and Other Deductions

All Performance Incentive Awards under the Plan shall be subject to any deductions (1) for tax and withholding required by federal, state, or local law at the time such tax and withholding is due (irrespective of whether such Performance Incentive Award is deferred and not payable at such time) and (2) for any and all amounts owed by the Participant to UTIMCO at the time of payment of the Performance Incentive Award. UTIMCO shall not be obligated to advise an employee of the existence of the tax or the amount that UTIMCO will be required to withhold.

7.9. Prior Plan

(a) The Performance Incentive Plan restates and supercedes the Prior Plan.

(b) All nonvested deferred awards under the Prior Plan will retain the vesting schedule defined under the Prior Plan. However, as of the Effective Date, those nonvested deferred amounts will be credited or debited with the Net Returns over the remaining deferral period in accordance with Section 5.7(a). Nonvested deferred balances earned under the Prior Plan will be subject to the terms and conditions for Nonvested Deferred Awards under the Plan, except the vesting period which will remain the same as it was under the Prior Plan, and when such amounts become vested, they will be subject to the terms and conditions for Vested Deferred Awards under the Plan.

8. DEFINITION OF TERMS

8.1. **Asset Class Performance** is the performance of specific asset classes within the Total Endowment Assets (such as US public equity, private capital, etc.) based on the standards set forth in Section 5.8(b)(1).

8.2. **Board** is the UTIMCO Board of Directors.

8.3. **Compensation Committee** is the Compensation Committee of the UTIMCO Board of Directors.

8.4. **Compensation Program** is defined in Section 1.

8.5. **Effective Date** is defined in Section 5.1(b).

8.6. **Eligible Position** is defined in Section 5.3(a).

8.7. **Entity Performance** represents the performance of the Total Endowment Assets (based on the standards set forth in Section 5.8(a)).

8.8. **Incentive Award Opportunity** is defined in Section 5.5(a).

8.9. **Net Returns** is the investment performance return of the Total Endowment Assets, net of fees. Net of fees factors in all administrative and other fees for managing the Total Endowment Assets. The net investment return will be calculated as follows:

$$\frac{\text{Permanent University Fund Beginning Net Asset Value}}{\text{Total Endowment Beginning Net Asset Value}} \times \text{Permanent University Fund Net Investment Return}$$

Plus

$$\frac{\text{General Endowment Fund Beginning Net Asset Value}}{\text{Total Endowment Beginning Net Asset Value}} \times \text{General Endowment Fund Net Investment Return}$$

8.10. **Nonvested Deferred Award** is defined in Section 5.6.

8.11. **Nonvested Deferred Award Account** is defined in Section 5.7(a).

8.12. **Paid Performance Incentive Award** is defined in Section 5.6(a).

8.13. **Participant** is defined in Section 5.3(a).

8.14. **Peer Group** is a peer group of endowment funds maintained by the Board's external investment advisor that is composed of all endowment funds with assets greater than $1 billion at the beginning of each Performance Period and is set forth on Appendix B, as such Appendix B is amended from time to time. Harvard University, Yale University and Total Endowment Assets are excluded from this peer group. The peer group will be updated annually at the beginning of each Performance Period, and Appendix B will be amended accordingly.

8.15. **Performance Goals** are defined in Section 5.4.

8.16. **Performance Incentive Award** is the component of a Participant's total compensation that is based on specific performance goals and awarded as current income or deferred at the end of a Performance Period in accordance with Section 5 and Appendix A.

8.17. **Performance Incentive Plan** is defined in Section 5.

8.18. **Performance Measurement Date** is the close of the last business day of the month.

8.19. **Performance Period** is defined in Section 5.2.

8.20. **Prior Plan** is the UTIMCO Performance Compensation Plan, effective September 1, 2000.

8.21. **Salary Structure** is described in Section 4.1.

8.22. **Total Endowment Assets** means the combination of the Permanent University Fund and the General Endowment Fund, but does not include any other endowment funds monitored by UTIMCO such as the Separately Invested Fund. Performance of the Total Endowment Assets is measured net of fees, meaning performance is measured after factoring in all administrative and other fees incurred for managing the Total Endowment Assets.

8.23. **Vested Deferred Award** is defined in Section 5.7(c).

8.24. **Vested Deferred Award Account** is defined in Section 5.7(c).

Appendix A
UTIMCO Compensation Program
Performance Incentive Award Methodology

I. Determine "Incentive Award Opportunities" for Each Participant[1]

1. Identify the weights to be allocated to each of the three Performance Goals for each Participant's Eligible Position. The weights vary for each Eligible Position and are set forth on the chart in Section 5.5(b). For example, for the President and CEO, the weight allocated to the Entity Performance Goal is 70%, the weight allocated to the Asset Class Performance Goal is 0%, and the weight allocated to the Individual Performance Goal is 30%. The total of the weights ascribed to the three Performance Goals must add up to 100% for each Participant.

2. Identify the percentage of base salary for the Participant's Eligible Position that determines the Performance Incentive Award for achievement of the Threshold, Target, and Maximum levels of the Performance Goals. The percentages vary for each Eligible Position and are set forth in the chart in Section 5.5(b). For example, the Performance Incentive Award for the President and CEO is 18% of his or her base salary for achievement of Threshold level performance of all three Performance Goals, 90% of his or her base salary for achievement of Target level performance of all three Performance Goals, and 180% of his or her base salary for achievement of Maximum level performance of all three Performance Goals.

3. Calculate the dollar amount of the Threshold, Target, and Maximum awards for each Participant by multiplying the Participant's base salary for the Performance Period by the applicable percentage in Step #2 above. For example, assuming the President and CEO has a base salary of $450,000 for the year, the President and CEO will be eligible for an award of a total of $81,000 (18% of his or her base salary) if he or she achieves Threshold level performance of all three Performance Goals, $405,000 (90% of his or her base salary) if he or she achieves Target level performance of all three Performance Goals, and $810,000 (180% of his or her base salary) if he or she achieves Maximum level performance of all three Performance Goals.

4. Because a Participant may achieve different levels of performance in different Performance Goals and be eligible for different levels of awards for that achievement (e.g., he or she may achieve Target performance in

[1] These Incentive Award Opportunities represent amounts that each Participant will be awarded if he or she achieves his or her Performance Goals at varying levels and are calculated at the beginning of each Performance Period.

the Entity Performance Goal and be eligible to receive a Target award for that goal and achieve Maximum performance in the Individual Performance Goal and be eligible to receive a Maximum award for that Performance Goal), it is necessary to determine the dollar amount (the "Incentive Award Opportunity") of the Threshold, Target, and Maximum award for each separate Performance Goal. This is done by multiplying the dollar amount of the Threshold, Target, and Maximum awards for the performance of all three Performance Goals calculated in Step #3 above for the Participant by the weight allocated for that Participant to the particular Performance Goal. For example, as determined in Step #3 above, the President and CEO will receive a Performance Incentive Award of $405,000 if he or she achieves Target level performance of all three Performance Goals. This $405,000 is broken up per Performance Goal as follows: If the President and CEO achieves Target level performance in the Entity Performance Goal, he or she will be awarded $283,500 (his or her weight allocation of 70% for this Performance Goal multiplied by the $405,000), and if he or she achieves Target level performance in his or her Individual Performance Goal, he or she will be awarded $121,500 (his or her weight allocation of 30% for this Performance Goal multiplied by the $405,000). Note that, because no weight allocation is given to the President and CEO for the Asset Class Performance Goal, no amount of the $405,000 is allocated to the achievement of that Performance Goal.

5. After Step #4 above is performed for each of the three levels of performance for each of the three Performance Goals, there will be nine different Incentive Award Opportunities for each Participant. For example, for the President and CEO (based on a Base Salary of $450,000 for the year), the nine different Incentive Award Opportunities for achievement of the Performance Goals for the Performance Period are as follows:

Incentive Award Opportunities for President and CEO

Performance Goal/Weight	Threshold Level Award	Target Level Award	Maximum Level Award
Entity (70%	$56,700	$283,500	$567,000
Asset Class (0%)	$0	$0	$0
Individual (30%	$24,300	$121,500	$243,000
Total (100%)	$81,000 (18% of salary)	$405,000 (90% of salary)	$810,000 (180% of salary)

II. Calculate Performance Incentive Award for Each Participant

6. Determine the achievement percentages that divide the Threshold, Target, and Maximum levels for each Performance Goal. These divisions are set forth in the chart in Section 5.8(b)(1) for the Entity and Asset Class Performance Goals. For example, as shown on the chart, achievement of the Entity Performance Goal in the 40th percentile is the Threshold

performance level, achievement of the Entity Performance Goal in the 60th percentile is the Target performance level, and achievement of the Entity Performance Goal in the 75th percentile is the Maximum performance level. As shown on the chart, the achievement percentile for the Asset Class Performance Goal is based on the attained basis points for a particular type of investment. Thus the measurement of the level of achievement (i.e., Threshold, Target, or Maximum) for the Asset Class Performance Goal differs for each Participant depending on the assets under that Participant's investment control. The measurement for the level of achievement (i.e., Threshold, Target, or Maximum) for the Individual Performance Goal is initially determined each Performance Period by the Participant's supervisor, if any, and then is approved (or adjusted) by the Compensation Committee as it deems appropriate in its discretion. If the Participant has no supervisor, the measurement for the level of achievement for the Individual Performance Goal is determined each Performance Period by the Compensation Committee.

7. Determine the percentile achieved of each of the Performance Goals for each Participant using the standards set forth in Sections 5.5 and 5.8 of the Plan, as modified in the case of new hires in Section 5.9.

8. Calculate the amount of each Participant's award attributable to each Performance Goal by determining the Incentive Award Opportunity amount for the applicable percentile of the Participant's level of achievement for each Performance Goal as determined in Step #4 and Step #5 above. That is, achievement of the Entity Performance Goal in the 40th percentile is the Threshold performance level and merits a Threshold level award, achievement in the 60th percentile is the Target performance level and merits a Target level award, and achievement in the 75th percentile is the Maximum performance level and merits a Maximum level award. For example, if the President and CEO achieved 100% of his or her Individual Performance Goal, he or she would have earned an award of $243,000 (Maximum award) for that Performance Goal for the Performance Period, and if the Entity Performance Goal of the 40th percentile is achieved, he or she would have earned an award of $56,700 (Threshold award) for that Performance Goal for the Performance Period.

9. An award for achievement percentiles in between the stated Threshold, Target, and Maximum levels is determined by linear interpolation. For example, if the 54th percentile of the Entity Performance Goal has been achieved, it is between the Threshold (40th percentile) and the Target (60th percentile) levels. To determine the amount of the award attributable to a 54th percentile achievement of the Entity Performance Goal, perform the following steps: (i) subtract the difference between the dollar amount of the Threshold and Target Incentive Award Opportunities for the Participant (e.g., for the President and CEO, as illustrated in the above

table, the difference is $226,800 ($283,500- $56,700)); (ii) divide 14 (the percentile difference between the Threshold level of 40th percentile and the attained level of 54th percentile) by 20 (the percentile difference between the Threshold level and the Target level); (iii) multiply the amount determined in the preceding Step (i) by the percentage determined in the preceding Step (ii); (iv) add the amount determined in the preceding Step (iii) to the Threshold Incentive Award Opportunity for the Participant to get the actual award for the Participant attributable to each Performance Goal.

10. No award is given for an achievement percentile below Threshold, and no award above the Maximum award is given for an achievement percentile above the Maximum level. For example, if the 38th percentile of the Entity Performance Goal has been achieved for the Performance Period, no award is given for that Performance Goal. If the 85th percentile of the Entity Performance Goal has been achieved for the Performance Period, no award in excess of the Maximum Incentive Award Opportunity for that goal is given.

11. Add the awards determined in Step #8 and/or Step #9 above together to determine the total amount of the Participant's Performance Incentive Award for the Performance Period.

APPENDIX B
UTIMCO PEER GROUP

- Brown University
- California Institute of Technology
- Case Western Reserve University
- Columbia University
- Cornell University
- Dartmouth College
- Duke University
- Emory University
- Grinnell College
- Johns Hopkins University
- Massachusetts Institute of Technology
- New York University
- Northwestern University
- Ohio State University and Foundation
- Princeton University
- Purdue University
- Rice University
- Stanford University
- The Rockefeller University
- The Texas A&M University System and Foundations
- UNC at Chapel Hill and Foundations
- University of California
- University of Chicago
- University of Michigan
- University of Minnesota and Foundation
- University of Notre Dame
- University of Pennsylvania
- University of Pittsburgh
- University of Rochester
- University of Southern California
- University of Virginia
- University of Washington
- Vanderbilt University
- Washington University
- Wellesley College
- Williams College

Source: Cambridge Associates. Represents University endowments (excluding Harvard, Yale and Total Endowment Assets) with total assets in excess of $1 billion as of fiscal year end June 2003.

7. U. T. Board of Regents: Approval of the Annual Budget and Management Fee Schedule for The University of Texas Investment Management Company (UTIMCO) for the fiscal year ending August 31, 2005, and approval of cost study

The Board approved the Annual Budget as set forth on Page 38 and the Annual Fee and Allocation Schedule for The University of Texas Investment Management Company (UTIMCO) for the fiscal year ending August 31, 2005, as set forth on Page 39.

Further, the Board requested that the UTIMCO Board of Directors determine how UTIMCO's cost structure compares to its peers, with a specific request that a study be performed by March 2005 to allow use of the study as a reference for review of the Fiscal Year 2006 UTIMCO Budget. The study should address the following questions:

1. How do UTIMCO's Services Costs compare to its peers?

2. How do UTIMCO's Direct Costs to Funds compare to its peers?

3. How do UTIMCO's Total Costs compare to its peers? Total Costs would include the full cost of managing the investments including all of the costs in the UTIMCO budget, all management fees that are not included in the UTIMCO budget, and brokerage commissions.

4. How does the level and breadth of services provided by UTIMCO compare to its peers?

5. How do UTIMCO's costs compare to the costs associated with a purely passive investment implementation strategy?

Chairman Huffines acknowledged the excellent investment returns and commended the professional work performed by UTIMCO President, Chief Executive Officer, and Chief Investment Officer Bob Boldt and the UTIMCO staff. He said a cost study was to be performed and funded with reserves held by UTIMCO in order for the Board to be better informed about the cost of operations, including management fees assessed directly against the funds and not reflected in the budget.

Vice-Chairman Hunt said he is supportive of the budget and commented on the issue in which management and service fees are netted against earnings by external managers before those earnings are reported to UTIMCO. He said this procedure has been reviewed and accepted by UTIMCO's independent external auditors and is standard industry practice used by the investment community. He further said all major endowment funds in the U.S. report results in this manner. Vice-Chairman Hunt said the cost study is appropriate and complies with transparency and full disclosure.

Chairman Huffines asked Vice-Chairman Hunt, as Chairman of the UTIMCO Board of Directors, to have UTIMCO analyze how often the consultants in terms of custody fees have been put out for bid and provide that information to Executive Vice Chancellor Kelley.

Regent Estrada questioned the difference in the cash reserve surplus of $10.8 million and the recommended amount of $2.7 million. Associate Vice Chancellor Philip Aldridge explained that in accordance with the contract between the Board and UTIMCO, the Board approved a $4 million distribution on August 12, 2004, and additional rebates will be determined on a periodic basis.

THE UNIVERSITY OF TEXAS INVESTMENT MANAGEMENT COMPANY

2002 - 2005 Operating Budgets

	8/31/02 Budget	8/31/02 Actual	8/31/03 Budget	8/31/03 Actual	8/31/04 Budget	8/31/04 Projected	8/31/05 Budget	% Change from 2004 budget
UTIMCO Services								
Salaries and Wages + vac	2,703,427	2,287,533	3,854,426	3,102,883	4,141,188	3,804,867	4,780,040	15%
Bonus Compensation + int.	1,086,879	239,622	2,100,684	1,089,333	1,867,266	1,858,109	1,704,253	-9%
Total Compensation	3,790,306	2,527,155	5,955,110	4,192,216	6,008,455	5,662,976	6,484,293	7.92%
Total Payroll taxes	188,021	145,492	249,743	195,076	270,688	232,185	293,831	8.55%
403(b) Contributions	200,051	156,515	291,841	219,898	320,423	285,000	360,425	12%
Group Health,Dental,AD&D,Life,GroupLTD	166,472	150,085	246,344	201,090	322,430	293,025	437,787	36%
Employee Benefit Services	7,000	7,850	7,000	4,490	6,000	5,650	6,000	0%
Employee Benefits	373,523	314,450	545,186	425,478	648,854	583,675	804,212	23.94%
On-Line Data & Contract Services	522,500	304,635	512,500	417,995	558,800	584,150	636,729	14%
Recruiting and Relocation Expenses	8,000	94,038	372,000	359,917	25,000	18,500	141,000	464%
Travel	80,000	71,739	120,000	109,138	187,000	182,500	255,000	36%
Phone Equipment and Charges	82,000	49,530	79,500	41,990	72,000	48,785	46,000	-36%
Computer & Office Supplies	71,600	51,344	79,100	73,887	85,650	85,400	87,640	2%
Employee Education	20,000	13,034	72,000	14,424	56,500	36,450	54,700	-3%
Repairs/Maintenance	41,500	36,673	41,500	39,453	43,500	48,000	48,600	12%
BOD Meetings	20,000	18,623	47,500	29,811	49,050	38,700	40,750	-17%
Other Operating Expenses	115,300	16,675	47,500	25,554	23,500	30,700	21,500	-9%
Total General Operating	960,900	656,291	1,371,600	1,112,169	1,101,000	1,073,185	1,331,919	20.97%
Total Lease Expense	613,000	604,683	623,010	606,013	623,010	619,785	592,510	-4.90%
Investment Consultants	25,000	195	100,000	2,000	50,000	0	0	-100%
Legal Expenses	275,000	242,533	250,000	500,823	200,000	196,500	175,000	-13%
Compensation Consultant			0	45,200	25,000	65,000	25,000	0%
Accounting fees	10,000	6,630	10,000	6,870	10,000	9,500	9,500	-5%
Total Professional Fees	310,000	249,358	360,000	554,893	285,000	271,000	209,500	-26.49%
Property/Liability Package	10,875	12,182	13,399	15,009	18,282	17,500	17,500	-4%
Umbrella Policy	5,000	5,691	6,412	6,756	7,812	8,250	8,250	6%
Workers Compensation	7,300	10,910	11,543	14,109	16,722	17,500	17,500	5%
Business Auto	160	162	172	175	200	100	100	-50%
Commercial Bonding Policy	38,000	36,659	35,614	39,138	46,926	45,000	45,000	-4%
Prof. and D&O Liability	119,600	131,931	144,513	158,881	190,582	190,000	190,000	0%
Total Insurance	180,935	197,535	211,653	234,068	280,524	278,350	278,350	-0.77%
Depreciation of Equipment	281,592	271,692	286,200	286,176	294,243	286,297	456,000	54.97%
Total UTIMCO Services	$ 6,698,276	$ 4,966,655	$ 9,602,501	$ 7,606,089	$ 9,511,773	$ 9,007,453	$ 10,450,616	9.85%
		1,731,621		1,996,412		est. 504,320		
Direct Costs to Funds								
External Management Fees	12,788,316	10,968,493	13,344,491	10,699,801	9,525,099	13,168,545	15,043,557	58%
External Mgt. Fees-Performance Fees	7,400,111	3,899,937	6,771,540	4,467,459	8,423,640	9,548,200	8,460,603	0%
External Management Fees	20,188,427	14,868,430	20,116,031	12,314,265	17,948,739	22,716,745	23,504,160	30.95%
Custodian Fees and other direct costs	1,244,906	1,179,087	1,262,700	1,351,899	1,156,630	1,017,699	1,226,918	6%
Performance Measurement	321,338	231,413	268,163	261,625	400,000	478,075	685,710	71%
Risk Measurement	286,000	361,460	353,000	335,172	403,000	127,500	575,000	43%
Custodian and Analytical Costs	1,852,244	1,771,960	1,883,863	1,948,696	1,959,630	1,623,274	2,487,628	26.94%
Cambridge Fees	2,799,844	2,797,487	968,607	1,477,800	901,170	900,000	900,000	0%
Auditing	211,500	158,371	202,700	168,202	184,500	205,000	190,300	3%
Consulting		51,387	100,000	0	0		0	
Controls Assessment (Sarbanes Oxley)							95,000	
Printing	106,757	91,246	99,900	99,583	87,700	111,431	120,000	37%
Bank fees	4,000	7,289	9,000	7,605	9,000	10,670	9,000	0%
Rating agency fees	22,800	21,876	22,000	21,508	22,000	22,000	23,500	7%
Legal Fees	35,000	267,880	315,430	343,849	250,000	432,296	345,750	38%
Background Searches				1,540			18,900	
Other						3,180	2,000	
Other Directs Total	3,179,901	3,395,536	1,717,637	2,120,087	1,454,370	1,684,577	1,704,450	17.20%
Total Direct Costs to Funds	25,220,572	20,102,705	23,717,531	16,048,173	21,362,739	26,024,596	27,696,238	29.65%
		5,117,867		7,669,358		(4,661,857)		
Grand Total	31,918,848	25,069,360	33,320,032	23,654,262	30,874,512	35,032,049	38,146,854	23.55%
		6,849,488		9,665,770		(4,157,537)		

UTIMCO Budget ($)
Annual Fee and Allocation Schedule
For the fiscal year ending August 31, 2005

	The Permanent University Fund (PUF)	The Permanent Health Fund (PHF)	The University of Texas System Long Term Fund (LTF)	General Endowment Fund (GEF)	The University of Texas System Short Intermediate Term Fund (SITF)	Short Term Fund (STF)	Separately Invested Endowments and Charitable Trust Accounts	Total
UTIMCO Management Fee (1) (includes all operating expenses associated with the general management of the Funds)	**5,790,979**	**686,338**	**3,483,456**		**489,842**			**10,450,615**
Direct Expenses of the Fund:								
External Management Fees	9,874,557			5,169,000				15,043,557
External Management Fees-Performance	5,561,919			2,898,684				8,460,603
Other Direct Costs	2,166,240	22,050	112,450	1,768,687	122,651			4,192,078
Total Direct Expenses of the Fund	**17,602,717**	**22,050**	**112,450**	**9,836,371**	**122,651**		**0**	**27,696,239**
TOTAL UTIMCO Budget for the fiscal year ending August 31, 2005	**23,393,696**	**708,388**	**3,595,906**	**9,836,371**	**612,493**		**0**	**38,146,854**
Market Value of Funds Managed by UTIMCO as of 2/28/04 ($ millions)	**8,218.9**	**840.0**	**3,404.6**	**4,244.6** (3)	**1,106.2**	**2,231.3** (2)	**184.9**	**15,985.9**
Percentage of Market Value								
UTIMCO Services	0.070%	0.082%	0.102%	0.000%	0.044%	0.000%	0.000%	0.065%
Direct Expenses of the Fund	0.214%	0.003%	0.003%	0.232%	0.011%	0.000%	0.000%	0.173%
TOTAL	**0.285%**	**0.084%**	**0.106%**	**0.232%**	**0.055%**	**0.000%**	**0.000%**	**0.239%**

(1) Allocation Ratio: PUF-56%,PHF-7%,LTF-32%,SITF-5%
(2) Interest Income is net of fees and is not budgeted
(3) Pooled fund for the collective investment of the PHF and LTF

8. U. T. Austin: Request for acceptance of and approval of the location of donated outdoor works of art - statues of Darrell K Royal and Joseph D. Jamail (Deferred)

Chairman Huffines said the item related to acceptance of statues of Darrell K Royal and Joseph D. Jamail and their placement at The University of Texas at Austin was deferred at the request of the institution.

9. U. T. Board of Regents: Presentation of certificate of appreciation to Vice Chancellor and General Counsel Godfrey

Chairman Huffines thanked Vice Chancellor and General Counsel Godfrey for his service to The University of Texas System, noting that Mr. Godfrey had served as Vice Chancellor and General Counsel of the U. T. System since 2000 and built a strong team of lawyers, paralegals, and administrative staff in the Office of General Counsel.

Mr. Huffines then presented a certificate of appreciation to Mr. Godfrey as follows:

CERTIFICATE OF APPRECIATION

The Board of Regents

Expresses to

CULLEN M. GODFREY, B.A., J.D.

Its Sincere Appreciation for His
Distinguished Service and Outstanding Contributions

to

The University of Texas System

as

Vice Chancellor and General Counsel

2000 - 2004

Adopted by unanimous vote this 12th day of August, 2004

(signed by all members of the Board)

Vice Chancellor Godfrey received a standing ovation.

ADJOURNMENT.--Chairman Huffines announced that an Executive Session was not needed and that the purpose for which this meeting was called had been completed. The meeting was duly adjourned at 3:25 p.m.

/s/ Francie A. Frederick
Counsel and Secretary to the Board

November 2, 2004

Transcript of Discussion of Item 6
Special Called Board Meeting
September 28, 2004

Chairman Huffines: Before we get into our next item, I want to make just a comment and I'd like the Minutes in the record to reflect my comments and appreciation for the job that Vice-Chairman Hunt has done over the last several years, but particularly the last few months, in trying to devise a fair and responsible compensation policy. I've been involved in civic and public service for many years and I've seen few individuals that committed the time and the effort to do what was right and spend the time it takes to get this done. Vice-Chairman Hunt, a thank you is never enough for the effort you put into this, but I want to personally thank you and, on behalf of the other Regents, we thank you for the enormous amount of time and dedication you spent on this project. Thank you.

Vice-Chairman Hunt: Thank you.

Chairman Huffines: Before we begin a general discussion of Item 6 on Page 9 related to the proposed UTIMCO Compensation Program, I would like to amend the recommendation before you to suggest modifications to the plan. The recommendations are before you on blue paper as a motion, but I will read them instead. They're somewhat lengthy, but I would like to read them.

1. Amend Section 5.1(b) on Page 11.5 to change the effective date to September 1, 2004. Therefore, this will not be retroactive. This change is proposed with the understanding that incentive compensation for Fiscal Year 2004 will be paid under the terms of the 2003-2004 UTIMCO Compensation Plan, that the UTIMCO Board may exercise the full discretion granted under the terms of that Plan to pay incentive compensation, and that total incentive compensation for Fiscal Year 2004 may not exceed $2.25 million and must be paid with funds budgeted for Fiscal Year 2004.

2. Make editorial changes to other provisions of the proposed plan, as needed, to reflect an effective date of September 1, 2004.

3. Amend Section 5.3(b) on Page 11.5 to substitute six months eligibility for three months, except when compelling individual circumstances justify a shorter period of time.

4. Amend Section 5.5(b) on Page 11.7 to revise the chart outlining Incentive Award Opportunities to change the weightings for operations/support professionals from 70% entity performance and 30% individual performance to 20% entity performance and 80% individual performance and to change the maximum Incentive Award Opportunities for these professionals from 120% to 100% for the Managing Director of Accounting, Finance and Administration and the Managing Director of Information

Technology and from 60% to 50% for the Manager of Finance and Administration, the Manager of Investment Reporting, and the Manager of Portfolio Accounting and Operations. We'll have some discussion on that item in just a minute.

5. Amend Section 7.1(a) on Page 11.15 to move the phrase "consistent with the provisions of the plan" from line 2 to the beginning of the paragraph.

6. Amend Section 7.1(b) on Page 11.15 to read as follows:
   (b) Notwithstanding any provision of the plan and subject to the requirements that the approval of Performance Incentive Awards that will result in an increase of 5% or more in the total Performance Incentive Awards calculated using the methodology set out in Appendix A must have the prior approval of the U. T. System Board of Regents, the Board shall have the discretion and authority to make changes in the terms of the plan in determining a Participant's eligibility for, or amount of, a Performance Incentive Award for any Performance Period whenever it considers that circumstances have occurred during the Performance Period so as to make such changes appropriate in the opinion of the Board, provided, however, any such change shall not reduce, deprive, or eliminate a Vested Deferred Award of a Participant.

It is further recommended that these changes be reviewed by compensation consultants and tax counsel and that the Counsel and Secretary to the Board of Regents be authorized to make editorial changes to the Program as approved by the U. T. Board of Regents upon the recommendation of these reviewers and to correct any typographical errors. I would also note that in addition to the compensation survey of 15 institutions mentioned on Page 10 of the Agenda Book, Mercer obtained the data from published compensation surveys. Vice-Chairman Hunt, in your role as Chairman of UTIMCO, would you please comment and lead a discussion on the proposed UTIMCO Compensation Plan?

Vice-Chairman Hunt: Thank you, Mr. Chairman. Fellow Board Members, a current UITMCO Performance Compensation Plan has been in effect since September 1, 2000. Clearly to those of us on the UTIMCO Board and others, the current compensation plan is outdated. It predates the hiring of the current UITMCO leadership and most of its key staff. It predates the new asset allocation approved by the Regents in December 2003. Finally, it does not emphasize the need to compare ourselves to our peers rather than just to asset class benchmarks. Equally important, under the old plan, we were not able to deliver competitive compensation for outstanding performance as is for current practice nationally.

The proposed UTIMCO Compensation Plan before the Board of Regents today is the result of considerable work and negotiations on the part of the UTIMCO Board; the Board's Consultant, Mercer; UTIMCO’s Compensation Committee; legal counsel; and U. T. System staff.

I am pleased to report that the plan before the Regents today, as amended, represents the best efforts of all concerned, arrived at in good faith and confidence that it is in complete alignment with the Regents' vision and expectations of both performance and accountability. The plan was approved by the UTIMCO Compensation Committee on September 13 and by the UTIMCO Board of Directors on September 15, 2004.

This proposed plan differs from the current compensation plan in several ways. The most important change is a shift away from internal benchmarks to a more external focus on peer-to-peer competitiveness. The current compensation plan is totally based on performance relative to asset class benchmarks set by the UTIMCO Board with the approval of the Regents and the achievement of the individual nonquantitative goals.

The proposed plan establishes a high standard to achieve a significant bonus -- an entity-level performance that must exceed the majority of 36 peers in the class of managed endowments in excess of $1 billion. This is an elite class of competitors against which our performance expectations will be benchmarked before compensation incentives are applied in any given year.

In many ways this is a tougher plan than the current compensation plan. It sets a high standard for compensation incentives tied to a much greater level of actual performance than ever before. In return, the plan proposes increasing significantly the maximum incentive compensation to correspond to the increased performance requirements of the proposed plan.

In my view, this plan makes two major contributions to incentivizing performance:

- First, increased competitiveness in the management of endowment funds.
    - Competitive management is expected to yield higher returns enabling us to grow and leverage these funds to an even greater extent at a time when we need to maximize the contribution all nongovernmental, non-tax based revenue sources.
    - Competitive management of our funds is one of the ways to getting the higher returns and thus higher distributions to support our ongoing operations.
    - And the UTIMCO Board recognizes in this plan that getting the most highly competitive performance means hiring nationally competitive talent. To do that we must be nationally competitive in our compensation. The old plan did not provide this capability.
    - What this plan does differently is that not only does it raise the level of potential compensation incentive, but it does so if and only if we get nationally competitive performance.
- The second major contribution is alignment.
    - With this plan we have an alignment of interest between the Board of Regents, the UTIMCO Board, UTIMCO staff, and ultimately with the public, our alumni, and benefactors, the legislature, and all of our other stakeholders.

- You have alignment of interest when you are writing significant compensation checks and the Regents can say in good faith and confidence, yes, we are paying at the 75th percentile among our peers but we are getting 75th percentile or better performance.

- The Board of Regents can be confident that when we pay an incentive, we are paying someone who has garnered from the capital markets in a competitive process returns that are comparable to their peers. We don't pay if we don't get that performance.

- We have better alignment of interests and better alignment of decision-making because there is a focus now on a total portfolio.

- Only individual asset class managers will be incentivized to manage that asset class in addition to their contributions to the total portfolio.

In conclusion, let me say that we need to have competitive money management. But you must have the talent to be able to achieve it. Such talent requires competitive yet responsible compensation. This plan provides a better management tool to track and retain that kind of talent.

I am pleased to bring this forward to the Board today with the unanimous endorsement and approval of the UTIMCO Compensation Committee and the UTIMCO Board of Directors, and I urge its approval.

Chairman Huffines: Thank you, Vice-Chairman Hunt. I want to quote something that I've heard Vice-Chairman Hunt say during this process, that this has been a journey and we will remain on this journey. In my opinion, you've worked very hard to get an improved, superior plan. And with that, I'd like to open it up to questions or discussion to anybody. I know it's rather technical. We have the benefit of our consultants in the audience today from Mercer to answer some questions also, but Vice-Chairman Hunt, I know you would entertain questions from the Board.

Vice-Chairman Hunt: We can open with what Mercer has, a presentation that they can make. It's not in your book. We can lead with that or we can start with the questions.

Chairman Huffines: Let's start with the questions and see what kind of questions we have and then we may utilize that. Regent Rowling, do you have any observations or questions of any kind?

Regent Rowling: Let me preface by saying this is a complex plan and it took a lot of time to understand it and I can tell the time you spent. I appreciate that. I have some concerns. I am supportive of this plan. Let me preface that before I go with my concerns because I hope that this is a working document that UTIMCO would use to go forward with.

My first concern was there was no absolute performance standard in terms of the entity, performance goals, and awards. In other words, if UTIMCO had running years of declining asset values, then it's possible under this plan, because they are paying these awards based only on relative performance, that you could have a fund or funds that decline in value and we're paying maximum awards if we perform, or is it, we were the best of the losers? If we were at the top quartile, but we had running years of declining funds, we can end up paying maximum bonus awards even though our funds have declined. I feel like there should be some absolute performance standard rather than just relative performance standard.

Now, in conjunction with that, I will say also if we're going to do just relative performance and a relative performance is going to be measured only against our peer group, then we need to make sure that these 37 peers or 36 that we're comparing to have similar asset allocation models. For example, if some of them are restricted to government bonds only, if some states restrict some of their investments, that's not a very good pool to compare ourselves to. We need to make sure we are comparing ourselves with apples to apples. So that's the second thing -- that the peer group needs to be comparable in my opinion, needs to have a similar asset allocation that UTIMCO is using.

Those have to do with the instate performance goals. I do not feel like the asset class performance goals. . .I think those are great. Because if you have a performer in UTIMCO who is a superstar, even if the assets decline, he ought to be or she ought to be compensated for that. Let me shift to the individual goals. I think that, in my opinion, these individual goals will become tantamount to automatic bonuses.

This is what the plan calls for awarding: leadership, implementation of operational goals. I mean, aren't those things that we really are covering by base salary? Isn't that what we pay people base salary to provide? And so, to the extent that we have leadership incentives, I have found, at least with my company, that those turn into automatic bonuses over time.

My last comment is this is going to require a valuation every year of our private capital investments. Those are difficult. Even the article that Mr. Boldt sent out to all of us talked about the difficulty that institutions have in valuing the private capital investments. And, I will just say that it will be incumbent upon the UTIMCO Board to be sure that we get an accurate valuation since we're going to be paying bonuses annually based on the private capital whether it is up or down, and that's very difficult to value. It's going to be incumbent to really go the extra step to get accurate valuations in the private capital sector.

Chairman Huffines: Thank you. Vice-Chairman Hunt, would you like to address those three issues?

Vice-Chairman Hunt: I'd be glad to. All these issues are ones that we have addressed at one point in this journey over the last 18 months since we've had Mercer on as our consultant.

The first one is can we pay when we're losing money? The answer to that is yes. The reason that we came to that conclusion is that we really needed a market neutral model here, and what that means is if the market is up 20%, we'd certainly like to incentivize our staff to get the 25%. By the market -- in this case that's our peer group is up 20% --we'd like to be incentivized at 25%. Conversely, if the peer group is down 10%, we want to give them the same type of motivation to be only down 5%. So that a dollar that we save or that we didn't lose in the down market is just as important as the incremental dollar that we earn in the up market.

So, that's the concept I think and we could have Mercer comment on that. But I believe it's best practice among higher education endowments and perhaps other institutional money to structure their pay packages like that. I can understand where you're coming from because I come the same way in my own business and on an annual basis to lose money while you're paying a bonus. I think part of it here is -- and that's one reason we use a three-year rolling average -- that the rising is really much longer and we've got market cycles we really need to be measuring ourselves on a ten-year basis. But it's very hard to convert a ten-year strategy and tell everybody to wait until the end of ten years before we determine what your bonus is going to be. We've really got to pay on an annual basis. So, that would be my answer there.

On the peer group, I would agree with you that over time -- and once again a journey here -- would be to work toward within that 36 a sub-peer group that perhaps matches us better in size -- asset allocation and other types of investor constraints. I guess my concern here -- because we were going from no peer competition to significant peer where that was the largest, single item driving our compensation, you had to look at our historic performance and against this 36 on a ten-year basis with a 10 percentile, zero being the worst and 100 being the best.

So, we're at the 10th percentile and our more recent experience has been better than that. But, our ten-year performance is the 10th percentile. So, I guess my feeling -- and this within the universe of all institutional money -- higher education endowments are actually the most competitive. In other words, they have the highest return whether you look at retirement pension plans, foundations, higher education endowments over the last ten years -- Ennis Knupp, our outside Board of Regents' consultant, confirmed this in a scholarly paper earlier this year -- are the most competitive groups.

So, I guess the sense then at the Board level and the compensation consultant level is that we needed to walk before we run. But I think the best practice is that at some point that we would want to get a peer group that we would compete against and that we would benchmark against the compensation; specifically, against that group. So, I think that's a good recommendation. I think we need to prove ourselves against the bigger group before we go to the smaller group.

On the individual goals, I totally agree with you. The plan is written here before Chairman Huffines' suggested modification -- did have more entity quantitative, particularly for our five administrative people that are part of the plan. The Chief Auditor of the U. T. System tells us that it's not best practice, that tying their compensation to such a high level of end results could compromise their compliance, auditing, accounting, etc. I don't agree with that, but I think the consensus was that we need to follow his advice on that issue.

The amendment does move the total compensation tied to entity that was 49% under the plan UTIMCO passed, to about 41%. And so that, in my opinion, is moving in the wrong direction. But that was a consideration that we talked about all the way through this process.

And when we did reduce the risk, because I agree with you on qualitative goals, that they become too automatic, they become too much like salary. We did go back and that's why in the same motion we're reducing the potential maximum compensation for those five individuals or those five positions at the same time.

So, I think that's still an issue that I would hope we would revisit because I would certainly like to push the peer competitiveness -- the quantitative portion -- as high as possible. I finally would like to say that 20% in the qualitative should be about what everybody has and you'll go over 20%. But that's not the plan that's before us today. It averages slightly over 30% of the plan and will be based on individual nonquantitative goals and almost 70% on quantitative goals, 40% percent of that entity, 30% of that driven by asset class outperformance.

Chairman Huffines: Thank you, Vice-Chairman Hunt. Regent Krier, do have any observations?

Vice-Chairman Krier: I do. Can I start with a question?

Chairman Huffines: Sure.

Vice-Chairman Krier: About midway through your opening statement, you had a quote that referenced needing to exceed the majority of peers. Can you go back and read that sentence again?

Vice-Chairman Hunt: I'd be glad to. I said that the proposed plan establishes a high standard to achieve a significant bonus and an entity level.

Vice-Chairman Krier: Read it exactly how you said it.

Vice-Chairman Hunt: All right. The proposed plan establishes a high standard to achieve a significant bonus and entity-level performance that must exceed the majority of 36 peers in the class of managed endowments in excess of $1 billion.

Vice-Chairman Krier: Okay, so "significant".

Vice-Chairman Hunt: That's the determinative word.

Vice-Chairman Krier: Because you don't have to exceed the 40 in order to get a bonus.

Vice-Chairman Hunt: Forty percentile will allow a threshold entity performance. So the question is how you would define significant and I would say, at least in my mind, significant was you would have to go over the median because at 40 percentile we're not even at median. We would be delivering less than median total compensation. You have to get to the 60th percentile before we're delivering median total compensation.

Vice-Chairman Krier: But you're saying you think that's moving in the wrong direction and you want it to keep it up at the 50th percentile?

Vice-Chairman Hunt: No.

Vice-Chairman Krier: You supported this change?

Vice-Chairman Hunt: Which change?

Vice-Chairman Krier: The change to the 40th percentile from the 50th percentile.

Vice-Chairman Hunt: Yes.

Vice-Chairman Krier: So that we wouldn't even have to be exceeding half of our -- the majority of the comparables?

Vice-Chairman Hunt: Right. That's absolutely right. Given the statistic I just gave you, if you look at our ten-year results, we were at the 10th percentile. So at the 40th, if you look over that last 10 years, if we've been at the 40th percentile, this is included in the book. We're ahead about $1.8 billion. So, to me that was a reasonable range between the 40th percentile on the low side and the 75th percentile. Because under both, I mean at the 40th percentile we're still way ahead of where we've been, so that gets back into this journey that you can't set the benchmark unrealistically high and $1.8 billion would have been a lot of money if we had to garner it over the last 10 years which would have only taken 40th percentile performance.

Vice-Chairman Krier: Because we were at the 10th percentile. But to say that average deserves a significant bonus does concern me and it was at the 50th percentile the last time it came to the Board. Now it's been lowered to the 40th.

Vice-Chairman Hunt: No. We never had a threshold when it came to the Board before. That was a concept recommended by our consultant after the. . .it's never really come to the Board for a motion. We did make a presentation at Brownsville, but it was not a part of the January plan that was approved by UTIMCO.

Vice-Chairman Krier: You don't think it's gone from 50% to 40% in that area?

Vice-Chairman Hunt: No. Not between the January plan and now. There was a. . .

Vice-Chairman Krier: There was a time if you didn't earn over more than the majority of others' peer group. . .

Vice-Chairman Hunt: That's true. But we're miscommunicating it. There wasn't a threshold bonus before. In the January plan, if you got the 50% you were at zero. You had to go over 50%.

Vice-Chairman Krier: That would seem like a threshold to me.

Vice-Chairman Hunt: Today at 40% you get a bonus.

Vice-Chairman Krier: Before you had to be at 50% to get a bonus. Now you have to be at 40% to get a bonus.

Vice-Chairman Hunt: That's true. But the bonus that you get at 40% is what we call a threshold bonus. In other words, it doesn't start at zero. Before you had to be at 50.1 and then it kicked in. Today at 40, depending on where you are, you get a kind of a kicker there at the beginning.

Vice-Chairman Krier: Right.

Vice-Chairman Hunt: Where you get the 75% is the same in both plans. But we're starting at a higher base at the 40%. There were two changes. We lowered it from 50 to 40, and we added a percentage of salary as a start rather than just a nominal amount. Let's put it that way.

Regent Rowling: To make it clear, we're talking here about the entity bonus. That's one of the three bonuses. We're talking about the entity bonus. Not the asset class, not the individual, just the entity that kicks in at 40. And I had the same concern you have.

Vice-Chairman Krier: Let me say first of all, I appreciate your patience in answering my questions every step of the way and I appreciate all the work that Regents have done on this, that staff of the U. T. System, that staff of UTIMCO, that staff of some of our component institutions have shared their expertise with us. Maybe I'm not as risk adverse as some of my colleagues to having split votes because I think that happens in a democracy.

And I've just concluded that philosophically I approach some of these issues differently than some of my colleagues do. Doesn't mean I'm right and you're wrong. Doesn't mean you're right and I'm wrong. It means that we are approaching this from different perspectives. And in looking at the history of UTIMCO and how it's evolved from the Board, I think there's always been that sort of push/pull discussion of how much it should be external, how much it should be internal, who it should be compared to. And I'm just coming down in a different place on three major issues and one technical one.

The first is on complexity. As I've talked to members of the Board, as I've talked to staff, different people explained different provisions of the plan differently. In every case it's been an innocent, honest, different reading of the provisions. And I think that complexity could come back to haunt us. I don't know if it can be written in simpler, easier to calculate language, but it hasn't been.

I think it's hard to explain. Which is going to mean it's hard to explain to taxpayers, it's hard to explain to legislators, it's hard to explain to the media, it's hard to explain to students, and it's going to be hard for us to explain in the same way and hard for them to comprehend. I think that's one of the knots that we're tied up in on public school finance, that the more complex you make it, the harder it is to fix it and to build public support.

Mr. Chairman, you referred to it as a highly technical plan. That may be the way to describe it as much as the complexity. It is so technical that I think it's hard to gain public support.

And I think it's going to be difficult to verify the calculations that go into the various components, both internally, the numbers we're getting internally, and externally. And talking with our advisors, a lot of the information they're using is information they've obtained confidentially from the peer groups. And so there would not be a way to verify that and I'm just leery in this era of Enron and Fannie Mae and others where problems like that have occurred that we don't want to get into a similar position. So complexity is one concern.

The second is cost. We've already talked about going from the threshold of 50% to 40%. That adds cost. The maximum bonuses have as much as doubled from the last proposed plan that we had for some of the individuals involved. I had raised questions back in January about the amount of the bonuses and now that they're doubling, those concerns of mine have grown as well.

At a time when we see funding for higher education held flat or reduced, at a time when we're raising tuition for our students, I just don't know that it's the time to have bonuses this large. So cost and complexity are concerns.

The third one are the comps. An example of how different people interpret different things, at one point this week we were told we were looking at universities and foundations and that it ended up a broader group. But, even though it's broader, I don't know that it's broad enough. We're largely looking at investment companies and what other professionals doing investments make. And that's the peer group that I understand why that was selected.

At the same time, I look at an extended peer group that includes other state public funds that are invested by Texas where their investors sometimes have performed better than UTIMCO, sometimes have not, but are not being paid on anywhere near this level. I look at similar jobs within the U. T. System or on our U. T. campuses that are doing -- particularly when you look at the support roles, the IT operators -- very similar jobs and yet being paid significantly less before you even get into the bonuses that we're talking about today.

I really see these jobs as part of a public service component. The same kind of public service you and I are performing, the same type of public service the UTIMCO Board people are providing. Public service like legislators provide. Public service like many of our faculty provide on the campuses.

You know you could go to virtually any college on any of our universities and find someone that if he or she were working in the private sector would probably be making a lot more money. But thank God they feel a public service role and commitment to serve this state and to teach. And I think all of those are factors that perhaps a comp plan should consider as well. So complexity, cost, who are truly the comparables we should look at, are all the philosophical issues that I just disagree with.

In terms of if we are going to take a plan that has those philosophies though, I would hope we would try to make it work as well as it can given those philosophical thrusts. And so for example, on Section 7.1(b), which is, I think what you were reading, Mr. Chairman, on the blue pages.

Chairman Huffines: Yes.

Vice-Chairman Krier: The last document, the bottom of Page 2 and top of Page 3 of Chairman Huffines' motion. My concern is that we set out a plan and then this goes so far as to say but not withstanding these pages and pages of plans, the UTIMCO Board can really do whatever it wants. And I think that's caused by primarily one word in that, and that's the 5% or more in the total performance incentive awards. Because I would assume that would mean that the total amount would have to go up 5% and yet within that total amount you can allocate it any way you want to. That we're giving total discretion for 99% of that bonus to go to one person without any controls over that.

So, I tried to suggest language during the week that provided some individual controls as well as the total control and I'm particularly concerned to see that that's not included. One other suggestion I would make with respect to that technical section is here and in some others places in the plan there's been a reference to whenever circumstances have occurred that would justify doing otherwise. I think that's also in Amendment 1. If we're going to do that and allow the broad discretion, it would at least give me a little comfort if we ask that when the deviation occurs that the specific circumstances which the UTIMCO Board feels warrant departing from the plan or reported in the Minutes with the plan at the time that's done. So that we see there actually are objective reasons for treating the plan differently and that's reported so that there would be some sense of stability or continuity or precedence in the future. So with that, I respect you, I just don't agree with you on this one.

Chairman Huffines: Let me just make an observation on the last point that Vice-Chairman Krier was talking about was the flexibility for the UTIMCO Board. We're talking 5%. I would just like to remind everyone, in particular some of our guests in the audience, that we do have three Regents and the Chancellor serving on the UTIMCO Board and we have four to five outstanding business leaders and the 5% would amount between $100,000 and $150,000 this year if I'm not mistaken in flexibility, which is a range. Vice-Chairman Hunt, do you have any thoughts on that?

Vice-Chairman Hunt: Well, if I could, I would like to respond kind of in order. And I apologize for the time, but we do have philosophical differences here and I'm also one that doesn't mind having to split votes because I do think we ought to put forward what we believe and that's how we make our best decisions.

As far as complexity, there is complexity in the calculations. But I don't think there's a complexity in communicating and that's really the substantive change that we made from January was this move to peer competition. And the reason I recommended that strongly is because we now can communicate to all of our stakeholders that we're not going to pay if we don't get performance. And it's pretty easy to measure the performance against our peers.

Now, Regent Krier mentioned the verification issue and it is true that we're looking to our outside independent consultant that reports to the Board, specifically to the Chairman of the Board, for those numbers. Cambridge will deliver those in November. But they're available publicly by January or so from NACUBO, the National Association of College and University Business Officers.

I don't think any data ultimately -- and Cambridge can correct me -- ultimately that data is all public data across the board. It's just that you got the data in an official sense 60 days before NACUBO will be able to deliver.

Vice-Chairman Krier: But it's not available by name. When I talked to you all on the phone. . .

Mr. Bruce Meyers, Cambridge Associates: [unintelligible]

Chairman Huffines: Bruce is talking about strictly performance.

Vice-Chairman Krier: But the comp figures are not available by name, so both of those go into the calculation. You would have to have all of the calculation numbers publicly available to verify.

Vice-Chairman Hunt: Today we don't have those numbers. We will not pay a bonus until we have all of the peer competitive data and all the asset class data.

Chairman Huffines: She's talking about something else I believe.

Ms. Diane Doubleday, Mercer Human Resources Consulting: Can I respond to what Regent Krier said?

Chairman Huffines: Yes.

Ms. Doubleday: The annual calculation of the incentive -- the competitive compensation data -- is not an aftermath. The only thing that factors in is the actual salaries at the beginning of the year.

Vice-Chairman Hunt: Which we know at the beginning of the year.

Ms. Doubleday: Which you already know at the beginning of the year. So the performance data -- you can get organizational clarification -- that does go into the calculation compensation set by UTIMCO.

Vice-Chairman Krier: But the comp, there is a percentage of the comp that goes into the bonus.

Ms. Doubleday: That's right but it's a percentage of base salary.

Vice-Chairman Krier: But the base salary's determined by comparable figures that we wouldn't know what university. . .

Vice-Chairman Hunt: It's the base salary at the beginning of the year.

Ms. Doubleday: The base salary process at UTIMCO is for us. By the way, I'm from Mercer Human Resources Consulting. We do a study including a number of surveys as well as a custom survey that we do, 15 actually, university endowments. We create a market composite data which we present to the UTIMCO Board as context for their decisions about where people pay. This data does not determine anyone's salary. It is up to the Board to determine where salaries are paid relative to the market.

Vice-Chairman Krier: But you give them the composite, not the actual data.

Ms. Doubleday: That's right.

Vice-Chairman Krier: That's the point I'm making.

Ms. Doubleday: There is no way to get actual data on this survey.

Vice-Chairman Krier: Well you have it, but you can't share it because it's confidential.

Ms. Doubleday: Actually, we have survey data for a confidential survey that we conduct. Surveys that are purchased that are prepared for us by other professional organizations, they will not give you information. None of that data is going to be available.

Vice-Chairman Krier: But the 15 component groups, you do have it?

Ms. Doubleday: Yes.

Vice-Chairman Krier: That's my point.

Vice-Chairman Hunt: But the salary that will be used to determine the maximum bonus for the year that we're in right now, the 2005 year, is already known. We already have that known. We will not know the performance until after the performance period is over, June 30. It's actually a four-month period before we've accumulated all the peer and asset class performance data.

Vice-Chairman Krier: But you're mixing apples and oranges. You determined that base salary based upon figures of peers, right?

Vice-Chairman Hunt: Yes, and it's known at the beginning.

Vice-Chairman Krier: And your composite data, you don't actually know what those other 15 entities are making. I will never know what those 15 entity officers are making. You get composite data and if the Legislative Budget Board (LBB) wanted to do an audit of it, I suppose they could subpoena the records or compile them themselves. But it's not something that can be easily be verified.

Vice-Chairman Hunt: Well that process is no different. And I think in this case it's actually more verifiable than the Mellon survey that we just did where we did a mailout. In this case we actually did individual interviews of the 15 institutions to determine what they're paying. So, the process that we use here on the salary side is no different than we use for senior management and component presidents. So to the extent that that's not verifiable, it's not, but it's not unique to UTIMCO. It's the same process.

Vice-Chairman Krier: Then I would just urge you to be absolutely sure that we're never the victims of a situation where those numbers have been set up in such a way as to benefit individuals.

Vice-Chairman Hunt: And all I can say there is that those numbers come to the Board from an independent outside consultant that has no vested interest in the outcome other than the right answer.

Vice-Chairman Krier: With all due respect, some of the people that have been involved in setting this up do have a vested income interest.

Vice-Chairman Hunt: We'll let Mercer -- they can speak to the process here in a minute. The maximum salaries and total are up a little over 50% where as last year they would have been \$2.075 million. And if we adopted the change here, it's about \$3.05 million, so slightly maximum.

Chairman Huffines: Maximum?

Vice-Chairman Hunt: Maximum.

Chairman Huffines: But it's not double?

Vice-Chairman Hunt: It's not double, no.

Vice-Chairman Krier: The maximum possible bonus on line 1 goes from \$405,000 to \$810,000.

Vice-Chairman Hunt: I said on average for the total group. It doesn't mean on an individual that we couldn't have it greater than 50%.

Vice-Chairman Krier: And that's what I said. Some of the bonuses have as much as doubled.

Vice-Chairman Hunt: But on average, what I said, on average is 50% increase.

Vice-Chairman Krier: Well then that gets back to the last item about looking at it both as a whole and individual.

Vice-Chairman Hunt: Right. And I think there I would concur with Chairman Huffines as if we've gone through this lengthy process to select two very capable people to add to the three very capable outside directors plus three Regents and the Chancellor. And we've delegated to them the decision-making process of determining how one of those people is productive. And I think that's appropriate because they're the ones that are dealing with them on a much more frequent basis than the Board of Regents. And it's not any different than the process that our components or 90,000 employees when someone in -- whether it's Houston or San Antonio or Dallas is making decisions on what they're paying. Those decisions are not elevated to the level of the Board of Regents.

We've got to put the decision-making where the best decisions can be made. And so when you get to the individuals, not to the total which we're talking about here, but to the individuals, I think it's appropriate that those decisions are delegated as they are shown in the plan to the UTIMCO Board to set and to administer the plan. And then we should be concerned here with the end result and the total compensation and not the distribution of the compensation.

Vice-Chairman Krier: Well why would you have 25 pages telling you how to do it if you're going to have one paragraph that says do it any way you want.

Vice-Chairman Hunt: Well, this is a guideline. I mean, this is a description of how the Board -- but I think the Board -- it's in our best interest for the Board of Regents through their agency UTIMCO to have UTIMCO retain the flexibility to make those kinds of decisions, which are not any different than I think private business, which is what we're in a sense trying to simulate here, which gets back to philosophical difference. We're trying to create a competitive process here through incentives, which gets back to your questions on talent. If we're going to have talent that's appropriate to do this task, then in our view, we need to be able to compensate that talent to be here in Austin, Texas, managing these funds.

Probably the most important comparison, and then I'll close, to answer your questions, is once again the tale of two endowments. When we go back to a different era, 1992, June 30, 1992, different Board, we were the largest endowment, public or private, in the United States, by a $200 million over Harvard.

Twelve years later, June 30, 2004, we're now at $12 billion and they're $22.8 billion. We're almost $11 billion behind them, and when you convert that into annual distributions, it's $400 million a year. Our distribution in 1992 is larger than theirs. We're now $400 million behind. So when you talk about the tough lack of government funds -- no salary increases -- my answer to that is competitive money management creates more resources. Those resources are discretionary. If this Board can spend in a strategic way to accomplish our objectives whether they be salary increases or recruiting the next Nobel Prize winner to our campuses -- people that we have lost that Dr. Faulkner laid out on the tuition deregulation last fall -- went to institutions that had higher performing endowments. Is that why we lost them? I don't know.

But I do know that that $400 million is real, it's embedded into the system. They'll own that forever. It's free money. It's not a tax. It's not tuition. It's dollars that came from better practices, better management -- more competitive. We're going to compete for research, students, teachers, etc. We've got to be more competitive.

And to say we're going to take this piece of our business plan, we're going to be competitive in research, we're going to be competitive over here, but we're going to take this part of our business plan, which is unique in the sense as a public institution we have a very large endowment, which was a gift that came from some decisions long ago. And in a sense we're failing to perform on that gift when we don't manage it competitively. And we haven't and we're in the 10th percentile. That's a terrible, terrible answer to our predecessors in the decision making.

Chairman Huffines: But this year. . .

Vice-Chairman Hunt: But we ought to change.

Chairman Huffines: . . .we are in the 94th percentile.

Vice-Chairman Hunt: And this year we are in the 94th percentile, and the last two years the 75th and the last three years, 59th percentile. So it's been a long journey from where we were to where we are. But what we need to do now is to institutionalize the competitive process. And we can't, in my judgment, lose this opportunity to try to do that.

Chairman Huffines: Regent Rowling.

Regent Rowling: I have two questions, and one of them goes back, well I guess the Mercer people can answer this. Is this different than what other peer institutions are doing, significantly different than what they're doing in terms of the methodology and the complexity? And the second is, how do other institutions in our state that handle public money like Teacher Retirement or Texas Employment Retirement System, is this significantly different from plans that they have for their. . .

Chairman Huffines: To answer your first question, in regard to teachers and employees retirement systems. I think the missions are two different mission statements basically between teachers and employees retirement systems. Woody, I'll let you address that in just a minute. But no, they don't handle it this way. But they do have a different purpose.

Vice-Chairman Hunt: We are the highest performing, we're the fourth in size. We are the highest performing and we're the highest paying. So getting back to Regent Krier's comment on pay, we do pay more than the three that are larger. We also perform better. But there are some constraint differences, and you've got at least two of them that are liability driven over their retirement plans that have specific liabilities out there. We do not have specific liabilities. What we have are strategic opportunities. The question is how many dollars are we going to have to fund those opportunities and what kind of regular return can we get. So, it creates a different set of restraints. We should be able to earn higher rates of return, we do earn higher rates of return and we do pay those.

Chairman Huffines: I want -- just a second Regent Krier, just one second. Second question, Diane could you answer Regent Rowling's question about what the peers do in relation to incentive comp?

Ms. Doubleday: When we reviewed this plan, I think back in August 2003, we actually issued a report commenting on areas where we thought the existing plan was inconsistent with market practice and we based those recommendations largely on the custom survey that we did of 15 universities.

This survey was sponsored by Duke, Princeton, and Stanford wanting to get good data on their investment professionals and wanting more information on incentive design practices. And in addition to the sort of typical thing of sending something out in the mail and saying please fill out this form and send it back to us, we actually interviewed every single organization ourselves. My associate and I interviewed every organization specifically about their incentive design so that we could be sure we understood exactly what they were doing. And the plan that we designed here is very consistent with market practice in those kinds of organizations and other similar organizations that we worked with.

Regent Rowling: In both the areas of the amount. . .the methodology. . .do none of them require absolute performance, they're all relative based?

Ms. Doubleday: When we started this design process -- at that point you had performance on the -- just talking about the entity performance for a moment, let's just stick with that. You were just looking at how you compared to a policy benchmark, basically your roll-up of your various benchmarks. You had no peer comparison at all. We found some organizations that do just peer, but the prevalent practice at that time had been a combination of both and that's what we had recommended.

Now, since then, UTIMCO for reasons that Vice-Chairman Hunt has elaborated on, feels that it's important to have solely a relative performance metric.

Chairman Huffines: I think your question was is there a bottom line threshold?

Regent Rowling: Yes, are there bottom line return thresholds?

Ms. Doubleday: Usually not. If you're in an environment in which you're in a declining market, and so you may not in fact make money, but you'll lose less money than your peer company when they have made poor choices and your investment team organizations will pay incentives for having done better than the peers.

Regent Rowling: That's just hard to stomach to me. I mean to see when we're losing, I mean when we're losing money to be paying out bonuses. and I understand that they've done a better job than other people, that's just kind of. . .well let me ask you this question. In terms of overall compensation, is this comparable to the peer groups?

Ms. Doubleday: Yes. Yes. Actually, we did some subanalyses. Let me just step back a minute. We have this peer group where we spent a lot of time on that group. But we also have published survey data organizations like Mercer and others canvas large numbers of organizations about their jobs and collect survey data in financial organizations and universities endowments and in the for-profit investment side. So we have all of that as well.

So as we put all of that data together, and this is our standard methodology, this is exactly how we approach all of our clients, is to be looking at as robust a data set as possible, not to rely on a single source. So we develop what we call a market composite data for a board to have as robust a picture as possible and that's our standard methodology.

That is what we presented to the UTIMCO Board and it provides a range of market practice for any specific job and then it is really the decision-makers of the boards, in this case job, to decide where within that range it's appropriate from a philosophical standpoint and the experience and contribution of individuals. Obviously, people who are inexperienced and new to their jobs should probably be paid lower than ones who come with a lot of experience. So those are the kinds of factors that come in to play.

So everything that we have designed, both the magnitude of the plan, its features, the base salary range recommendations, all of those things are consistent with the market data. Now, I want to say one more point on that because I think it's important. We went back and said let's look at is there anything about this particular peer group of 15 organizations that's wildly out of range with the rest of the data.

Are we combining serving apples and oranges data set that could be in any way be skewing the composite that we're presenting to the UTIMCO Board? And in fact, we found that the variances between those data sets and the total were very small. And for us, small is in the 5-10% range and in any target we consider to be within competitive practice. So I think we're very comfortable as an organization about the data set.

Chairman Huffines: Regent Barnhill.

Regent Barnhill: I think I'm pretty sure I know how Vice-Chairman Krier feels on this issue. But sitting in on my first UTIMCO Board meeting a few days or weeks ago, I heard the Board, and in particular the Compensation Committee, emphasize their desire to have this plan be retroactive to September 1, 2003, because of the long delay in finalizing this plan, and I'm just wondering if you can explain the thinking behind changing it to 2004.

Chairman Huffines: Myself?

Regent Barnhill: Yes, somebody.

Chairman Huffines: Well, I made the amendment. I do understand that the UTIMCO Board voiced a strong opinion about making it retroactive and that there was a plan approved by the majority of the UTIMCO Board in January although it had some opposition. I made the amendment based on what I felt would be in the best interest of allowing the UTIMCO Board to have the flexibility under the old plan to achieve pretty much of where it would have been if it had been retroactive, not exactly. But I felt best practice is not to make it retroactive, personally. But that was just in my amendment. Regent Estrada or do you have anything else Regent Barnhill?

Regent Barnhill: No.

Chairman Huffines: Regent Estrada.

Regent Estrada: Yes. Thank you, Mr. Chairman. I had a couple of technical clarifications and then a substantive comment on your substitute amendment or motion rather, on Paragraph 3. I maybe missed -- I didn't understand the wording of the substitution. Am I getting it right that currently someone could be hired and be immediately eligible and we're changing that time frame?

Vice-Chairman Hunt: Three months right now. It used to be six and we changed it to three. Now this moves it back to six.

Regent Estrada: Okay. Maybe my mark-up wasn't done.

Vice-Chairman Hunt: It's back to six. It's a little unclear there.

Regent Estrada: So it's going to be three.

Vice-Chairman Hunt: The intent is to make it six months unless there's some compelling individual circumstance to justify a shorter period.

Regent Estrada: So six is what we're voting on. The other technicality I guess is to Vice-Chairman Hunt. On our notes on Page 11.26 of the Agenda Book, there's a bar chart on value added in the endowment funds that I wasn't quite sure if I was reading it right. Could you very briefly, maybe walk us through that? How do you calculate the zero base line, what does that represent? And then I guess it's obvious that we performed above and below that but I wasn't sure how we got the zero line.

Vice-Chairman Hunt: This is from Mellon and so it's kind of a switch over to where -- which one are you looking at, Page 11.25 or 11.26?

Regent Estrada: 11.26

Vice-Chairman Hunt: 11.26, I'm sorry. What we're attempting here is to look at each of our asset class benchmarks and determine which -- we've got a number of different asset classes; we've got different percentages allocated to them. We're trying to ask ourselves did we outperform the benchmark collectively?

So for each benchmark we look at outperformance or underperformance and then we net them together. And so that's a process of summing that over this 36-month period of time.

Regent Estrada: And the zero line in terms of exceeding the policy portfolio.

Vice-Chairman Hunt: So that would've been in that first month back there the summation of that month of our performance against our benchmarks and all of our asset classes would have summed to that number. We might have earned 10% for that month but the question is how much are we over the benchmarks? So if the benchmark summed to 10 and we were at 10.1 we've translated that back into dollars and said that's what active management added.

Regent Estrada: Net of expenses.

Vice-Chairman Hunt: Net of expenses, right. This is an attempt not to analyze actual earnings during this period. It was an attempt to say what is the interaction of staff given the asset allocation that was approved by the Board of Regents. They took it, they implemented it to what degree do they exceed those benchmarks. And this is their value added.

Regent Estrada: Okay that explains I wasn't tracking it previously. And let me also say I want to reiterate what the Chairman and other Regents have said about the amount of work that went into this is very obvious. I think we certainly owe that to the outside directors that have also devoted a lot of time to this and their service. I do have a philosophical difference as well that has been addressed to some extent in Item 4 of the substitute motion.

I am encouraged to see that we've changed some of the percentages around in that Section 5.5(b) of the plan. And it certainly goes in the direction I would like to see. My concern is in the inclusion of specifically the risk manager for UTIMCO and the internal audit finance and the administration professionals at UTIMCO in the same compensation plan. I am a big believer in rewarding your back office function and your administrative support.

The bonus plans in my own company certainly gives credit to the back office and support staff that make the rest of us productive and perform better, but it's a different criteria altogether, and that's where I -- certainly from the audit standpoint -- I do have a difference there if I'm understanding the role of risk manager correctly. And maybe I just don't understand that job description.

Vice-Chairman Hunt: We debated that particular position at the committee level and the conclusion there was it's really integral to the investment process there. I mean the risk return decision-making process the risk manager is really part of making that decision and is better a part of the entity performance incentivized that way rather than on the qualitative. And that was with the input of the outside Board members.

Regent Estrada: I agree with that.

Vice-Chairman Hunt: But the other staff, that's the CFO and the IT. And the argument there is this is not one of those black and white issues because as we become a much more robust asset allocation, a lot more complexity, the role of the IT manager, the role of the chief financial officer and the support staff there, senior support staff, becomes much more important in being able to execute the goal, the strategic plan of the organization.

And so the level of expertise, the requirements there, are not necessarily the same as what they were maybe even five or ten years ago. So, that's why I particularly pushed for a more quantitative weighting there than qualitative, but I also deferred both to yourself and to Charles Chaffin in there's sensitivity on getting people that also have an audit and compliance role to where they're incentivized by the entity. So that was one of these grey areas and it wasn't really black and white.

Regent Estrada: And I think from the discussion that various of us have had over the last week, this whole process is an ongoing work in progress and it will go back to UTIMCO for evaluation and our professionals are going to continue to look at it, our outside consultants. I would certainly encourage our consultants in particular to take a careful look at that and do a little more research on how our peer groups feel with people in that specific job description and whether their potentially doubling of their compensation can be impacted by the overall performance of the month.

Chairman Huffines: Thank you Regent Estrada. Regent Craven, do you have any observations or any comments?

Regent Craven: First of all, I appreciate the real discussion that we'ʻve had here today to really kind of be even more enlightened by both types of philosophy. I think at one time I was thinking on the compensation side. You look at U. T., the way people at U. T. are compensated. Having been a part of the System in the past as an employee, recognizing that, but also I was telling Regent Caven earlier I sat on two mutual fund boards and there's no doubt about it as we've gone to look at managers, compensation is one of the biggest discussions.

It's ironic that we're just coming to this meeting after I just left our Sun America Board funds in which we were telling them if you need competent staff, bring them in. Bring them in a competitive level because we want to see better results on these funds. And so I'll be very honest with you. I'm biased at this point in time having had this discussion in the other world of where maybe these people could go. And while we may work and others may work at no compensation, or you go because of the love of the field, I do think in this area right now of money management, it's a different, slightly different ball game.

And especially in terms of you've got so many other variables you have no control over as it relates in some instance to how the stock market is going to a whole host of other entities and liabilities and risk that are there. So along those lines after hearing the discussion, I feel that personally I think my vote will go to support it so that at least we can get started. And I think part of it, as we build this trust, as we build a trust between our Board and the Board of UTIMCO and understand the processes and continue to have -- not let this stop as the only dialogue, but it needs to be on a continuance so that we build a mutual trust and respect for one another. Then it'll be easier I think down the line.

And you started with how we've chosen the Board members. I think having the consultants here, having more of a dialogue, the fact that we're going to be meeting with the Board members in the future, because really a lot of this has to do with to some degree with the trust I was saying. This is extremely complex, and we're not going to understand it all completely, but I think to the degree it's been discussed here.

Chairman Huffines: Thank you, Regent Craven. I take it because UTIMCO had such an outstanding year last year that your mutual funds won't be trying to hire any of our people. Regent Caven, do you have any observations?

Regent Caven: Well mostly to repeat what has been said before, Mr. Chairman. I think the most important thing that Vice-Chairman Hunt pointed out and was echoed by Regent Estrada is that this is in fact a work in progress. I certainly salute the work that has been done by the Compensation Committee of UTIMCO, certainly by Vice-Chairman Hunt as Chairman of the Board of UTIMCO, a lot of the consultants, and a lot of work and a lot of hours have gone into this and I think it's definitely an improvement on the previous plan. I think it's a step forward. I personally am a great believer in incentive compensation.

And as amended I can support this plan, but I don't think we're finished. And I think we have a lot to do going forward. And in that connection I happen to agree with two of the points that Regent Rowling pointed out that I personally feel there should be an absolute return factor in there because there is a differentiation between retirement funds and endowment funds, but we do have certain liabilities we have to fund out there. And we need to be cognizant of that before going forward.

And I also question whether or not this peer group is really a fair comparison. The only qualification we're getting into this peer group is having over $1 billion. There is a wide variety of asset allocations there and I'm not sure that we're comparing apples to apples. So I salute what you've done Vice-Chairman Hunt and the Compensation Committee. I could certainly support this and will support this today but I think that it is very complex and I think we have a lot more work to do.

Chairman Huffines: Okay. Vice-Chairman Clements.

Vice-Chairman Clements: Well first, I want to comment about the motion that you made and I sent a letter out to all of you sending the Minutes from our UTIMCO meeting and I really got the feeling that day, and this of course includes our outside directors along with our Regent directors, that everyone felt like we had a good plan.

And there was that feeling that we're building up a wonderful staff. We have confidence in them and want to support them. And they've kind of been hanging out there for a year with a compensation plan and it wasn't their fault that it never came before the Board of Regents and nothing could be done about it. So personally I would rather stick with the original 2003 but I certainly can go along with the majority if you all feel differently.

More important, I want to talk about the future of the U. T. System, where our government help is being cut back every year particularly at the state level. And we're talking about wanting to improve the quality of 15 institutions and there's just a limit on how much we can raise tuition and from the public support we get.

And it's becoming more and more important that we get private support. And of course we're building our donor basis and everything but the important part of that private support is really what is generated by UTIMCO. And like Woody alluded to, if you look at what it was in 1992 versus what we're doing now, it's a wonderful story and hopefully it can continue and certainly it will help every one of our institutions. But to have these kinds of returns we have to have the best people and under Bob Boldt's leadership I think we've recruited some great people on the staff and some real stars and we have to pay them what they can get in the private market.

And so I really do feel that to be competitive we've got to keep this excellent talent. And so, I agree with what Scott said about it is a work in progress and we need to do more work on this but I think we're making great progress. And I think the whole structuring of the U. T. System Board overseeing this more carefully and a joint meeting once a year and more communication back and forth is great and I see a bright future for UTIMCO.

Chairman Huffines: Thank you and thank you for your efforts on the UTIMCO Board, Vice-Chairman Clements. I'd like to call for final comments from Chancellor Yudof.

Chancellor Yudof: Thank you, Mr. Chairman. I'll be brief. I'm really conflicted. I sort of agree with all of you. Of course I think, I mean we want to reward performance. We've had great performance from Mr. Boldt and his group over the last two years. But we are still part of the public sector and I have to go down to the legislature and explain ourselves and it's also true we only have so many flows of income. Tuition is a very sensitive topic and we have been asked to submit a budget with a preliminary 5% cut in a system that is growing 5% a year in terms of numbers of students and where the inflationary factor has to be at least 2 or 3% over that period, so it's very tough.

I supported this plan with some reservation, some of which you expressed. I guess I would say two things. I thought this was a better plan than the January plan in my judgment. The maximum amount of the bonuses remained the same. The 120% of the base salaries and 180% of the maximum amount under the January plans, that's right. We're looking . . .

Vice-Chairman Hunt: This amendment, Chancellor, actually should be a little bit smaller because of the reductions on the administration.

Chancellor Yudof: I believe it was 180% at the top and then it ratcheted down to 150% of the base salary. I was originally in favor of pushing those much further down. But under this plan the bar is raised. The percentage of the maximum that they would have gotten had the plan applied in 2003-2004 is lower than it would have been had the plan in January been adopted.

So I thought I am not an expert on benchmarks but they were hitting over 90% of the target as the plan was originally drafted. Now I'm told it's about 70%. You seem incredulous Regent Krier, did I say something wrong?

Vice-Chairman Krier: I'm totally lost as to what you're relying on saying that it's less. That the maximum. . .

Chancellor Yudof: The maximum is the same. I said that the maximum is the same. The maximums are the same between January. . .

Chairman Huffines: The individual maximums are different Regent Krier, but the total maximum is what they're referring to.

Vice-Chairman Krier: And the total maximum on what I'm looking at said $2 million and now says more than $3 million.

Vice-Chairman Hunt: He's comparing it to the January plan.

Chancellor Yudof: The January plan.

Vice-Chairman Hunt: Not the old plan. That's not the January plan.

Vice-Chairman Krier: The current plan?

Chairman Huffines: The 2002 plan.

Chancellor Yudof: I'm not trying to compare -- we have the current plan -- let me just try this again. We have the current plan of which pays considerably less. Then we have the proposal that occurred in January which set the maximum of 180% for Mr. Boldt and then 150% for someone else and then it ratcheted down 130%, 120%, and so forth.

Under this plan the maximum is the same as under that January plan that was never adopted. But the bar has been raised. The use of the comparison group, Regent Rowling. . .well it is true you can go negative and you have to be careful about those numbers. Effectively had the plan been in effect, this plan in 2003-2004, I'm going to use a round number I think is about right. They would have qualified for about 70% of the maximum, whereas under the January plan they would have qualified for more than 90%.

So there has been a significant reduction in the compensation because the bar has been raised higher had it been in effect. I can only go by last year because I don't know what it would be this year. That, I thought, was maybe not perhaps what everyone wanted, but it seemed to me that was a ratcheting down raising of the bar. And therefore ratcheting down of what would be the performance bonus paid over that period of time. I thought that maybe it's a compromise but I thought that was significant.

The second thing I'd say is I guess this is an attempt to balance the question of what type of service is it at UTIMCO. We've all heard the argument on both sides of that. It probably is true that these investment managers as Regent Craven said are, well they're somewhat strange Bob and unusual but they have their own sort of market out there which is unfortunately different from the markets of chancellors and presidents and certainly English professors and maybe it shouldn't be but it is.

And to balance, the hard part for me in this -- and I'm not opposed to this -- is I did have a lot of problems with the administrative personnel. And Woody has explained to me many times how you want everyone to be sort of pulling the oars in same direction and feeling part of a team. But when you have people for whom the markets may not be these national markets in quite the same way, and where you can go into the marketplace and find people with similar skill sets and then you incentivize it the same as if they were investment managers, I find that somewhat troubling. That has been tamped down somewhat in this draft in the ways I guess, Regent Rowling you saw it and others. I don't know if that's the final resolution of that in my own mind. Because I still can't get over -- you have to look very careful at which markets you're operating in, and we do that. We know that in certain markets at U. T. Austin we're in an international market. But in other markets we only go out 40 miles. It really depends on the type of position you're recruiting for.

So I thought this was sort of a reasonable compromise. The question I have for the consultants -- I'm not sure Regent Rowling got an answer and maybe there is no answer. The maximum under this is $3.2 million.

Vice-Chairman Hunt: That's a little less than $3.1 million. If you adopt the amendment that lowers those.

Chancellor Yudof: Alright. Let's just say $3 million maximum performance bonus in this plan and had it been in effect in 2003-2004, the actual bonus would've been 2 point something, $2.2 or $2.1 or $2.3 million or something like, roughly 70% or 72%. If I were to go to these other schools and I got the president of the University of Virginia on the phone -- I'm really talking more about publics now -- or I got the president of the University of Michigan or any number of others, and I said, and I wanted to compare salaries and also ask them what sort of bonuses did they pay, what sort of answers would I get? I know you won't answer for Virginia or Michigan specifically.

Ms. Doubleday: Well, I would think -- I always am a little nervous about talking about one school because we don't base our analyses on one organization. But I think that if you looked across this group of organizations you should get comparable answers from organizations that had comparable performance.

One of the ways that we -- and I think maybe Bruce Myers from Cambridge could back me up on this point -- one of the ways that we look besides we have the compensation analysis and that kind of gives us one picture, the other thing is to say what percentage of the incremental value added to the endowment fund is actually going to support the incentives. And I think that's where the other tests that we have here -- and I know when we looked at this in February and the numbers have been updated a little bit that we're talking about -- I have the number here for you.

Chancellor Yudof: The average -- would we be high, would we be low?

Ms. Doubleday: I honestly can't say where you would be given that performance against the group. I believe that you should be approximately in the middle because that's about where the performance ended up. But I honestly can't give you a specific answer because I don't know where all their performances ended up relative to where your performance was this year, because I haven't done that analysis. And I don't know if Bruce, if you've got any sense of that for this year. I don't think we have numbers even for the rest of the peer group.

Vice-Chairman Krier: But that's something you can look at in the future as part of this being an ongoing. . .

Ms. Doubleday: Well, I think yes, at the end of the year you can always pull all of our data. . .

Vice-Chairman Krier: You could look back and tell.

Ms. Doubleday: You could look back and see where people were. I was going to say that the incremental cost of this plan when we had it about at $1 million, at maximum incremental cost, was less than a basis point relative to the total asset. So we thought that was another reasonableness test.

Chairman Huffines: Alright, thank you. Unfortunately we will lose a few Regents here due to plane reservations if we don't move forward. Therefore, is there a motion to approve the Program with the revisions I identified as well as an additional requirement to record circumstances justifying exceptions in the UTIMCO Board Minutes as recommended by Vice-Chairman Krier?

I would like to add that additional amendment to my proposed amendment so that any changes to the exceptions are justified in the Minutes of UTIMCO. Is there a motion?

Vice-Chairman Hunt: So moved.

Chairman Huffines: Thank you, Vice-Chairman Hunt. Do I hear a second?

Vice-Chairman Clements: Second.

Chairman Huffines: Second by Vice-Chairman Clements. All those in favor of this motion, please signify by saying "aye".

Vice-Chairman Hunt, Vice-Chairman Clements, Regent Barnhill, Regent Caven, Regent Craven, Regent Rowling: Aye.

Chairman Huffines: Opposed?

Vice-Chairman Krier, Regent Estrada: No.

Chairman Huffines: By vote of six to two the motion passes.